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Gemayel Seeking To Double Size of Peacekeeping Unit

By Thomas L. Friedman
New York Times Service

BEIRUT — President Amin Gemayel of Lebanon formally requested Monday that the United States, France and Italy increase the sizes of their multinational peacekeeping contingents in Lebanon.

Mr. Gemayel said he was making the request to help his government stop a deteriorating internal security situation in the country.

Mr. Gemayel met with the ambassadors of France and Italy and with a senior official from the U.S. Embassy; the three make up a committee overseeing the 4,100-member peacekeeping force.

According to the state-run Beirut radio, Mr. Gemayel asked them to convey to their governments his appeal for additional troops "to help the Lebanese Army spread its authority and end the turmoil in the mountains."

In his request, the president did not specify how many more soldiers he wanted but senior government sources said he was hoping for at least 5,000 more.

The multinational peacekeeping force, which includes 1,300 U.S. Marines, is stationed exclusively in the Beirut area. While the Lebanese capital is now quiet, the security situation in the countryside has been declining for the last month.

In the Chuf mountains southeast of Beirut, an area still occupied by the Israeli Army, there are frequent gunfights, kidnappings and artillery duels between rival Maronite Christian and Druze militias.

The fighting between the mountain villagers threatens to undermine the credibility of the Gemayel government.

Mr. Gemayel is also seeking the removal of Israeli, Syrian and Palestine Liberation Organization forces from Lebanon.

He met Monday with Prime Minister Shafiq al-Wazzan and his top foreign policy advisers to discuss reported demands by the Israeli cabinet that negotiations over an Israeli pullout should be held in Beirut and Jerusalem and should deal with matters of a "political and security nature."

Government sources said it was generally agreed that an Israeli request for negotiations to be held in the rival capitals would be totally unacceptable since it would imply Lebanese recognition of Jerusalem as the capital of the Jewish state.

Government officials said there was mounting frustration among President Gemayel's foreign policy advisers over what they believed to be either the inability or unwillingness of the Reagan administration to pressure the Israelis into restricting the negotiations to security matters and in a framework that would not cause Lebanon problems with its Arab neighbors.

The Lebanese officials said they feared that without some concerted and high-level action by the Reagan administration, the momentum for withdrawals would be lost.

There was a widespread feeling among senior Lebanese government officials that the Israelis were trying to link negotiations for their withdrawal from Lebanon to the Reagan peace plan.

The officials say they believe the Israelis want concessions from the Reagan administration on its demands for an Israeli pullout from the West Bank and Gaza Strip in return for a more conciliatory Israeli posture vis-a-vis Lebanon.

Failing that, the officials say they believe the Israelis will drag out the negotiations on Lebanon into the 1984 U.S. presidential election year, when they might be less vulnerable to U.S. administration pressures.

■ **Arafat Briefs Officials**

Palestinian sources said that Yasser Arafat, leader of the Palestine Liberation Organization, briefed Jordan-based guerrilla officers on the results of his talks Monday with King Hussein, The Associated Press reported from Amman, Jordan.

Mr. Arafat was expected to fly to South Yemen for similar talks with Palestinian officials there in preparation for a meeting of the Palestine national council, the PLO's parliament in exile.

PLO sources in Amman said Mr. Arafat led a meeting of officers of a Palestinian brigade based in Jordan.

Mr. Arafat arrived in Amman on Saturday from Damascus, where he attended a meeting of the 60-member Palestine central council. He held another round of talks with King Hussein on Monday.

King Hussein headed a seven-man Arab League delegation that visited France this month to rally support for the Arab peace plan announced in Fez, Morocco, in September.

The Associated Press

APPROVAL — *Prime Minister Indira Gandhi smiles at President François Mitterrand, who visited India's Parliament Monday. In a speech, the French leader said Paris was anxious to improve relations with New Delhi. Page 4.*

Russia Hints at Change In Retaliatory Posture

By Dusko Doder
Washington Post Service

MOSCOW — The Soviet news agency Novosti said Monday that the deployment of new medium-range U.S. nuclear missiles in Western Europe would force the Soviet Union to switch to an "instantaneous" retaliatory posture.

That stance, known in the West as "launch on warning," would prompt a Soviet counterstrike if monitoring equipment signaled a U.S. attack.

The agency said that the deployment of 572 Pershing-2 and cruise missiles in Western Europe, due to begin at the end of next year, would create a new strategic situation. Their proximity to Soviet borders "rules out the possibility of preventing a conflict, should one be started, by nonmilitary means."

Novosti, in a story telexed to Western news agencies in Moscow, quoted Soviet military circles as contending that the NATO deployment would "inevitably demand from the Soviet Union instantaneous actions in reply.

"Faced with an infinitesimal warning time, the only possibility remaining is a nuclear retaliatory strike in retribution. There is no other alternative.

"The few minutes flight of a Euromissile will undoubtedly become the first minutes of an all-European and world nuclear catastrophe," Novosti said.

The agency, which ostensibly has only semiofficial status, is used by the Kremlin to advance Soviet ideas without giving them the formal authority carried by Tass or Pravda.

Monday's article went further in specifying Moscow's response than any previous Soviet pronouncement on the subject. Western diplomats noted, however, that it coincided with the scheduled NATO defense ministers meeting in Brussels this week and that it may be designed to scare West European and U.S. public opinion.

So far, nuclear powers have operated on the basis of "launch on attack" — with the political leadership reserving the right to order a retaliatory strike when it is convinced that their respective countries are being attacked by an adversary.

Although the Russians do not use the term "launch on warning," the Novosti article clearly referred to the concept that is used by the Americans.

Novosti referred to the fact that Pershing-2, if stationed in West Germany, would hit Soviet targets within eight minutes of being launched. The cruise missile, although slower, was said by Novosti to have the same capability of carrying out a surprise strike because it is hard to detect.

While not discussing possibilities of Soviet equipment failure or false alerts, Novosti said that the U.S. medium-range nuclear weapons might be launched deliberately or as a result of a "subjective human mistake" or a technical failure.

Moscow, it said, would have to take this into account and "a retaliatory strike would be carried out not only on American launch sites, but also on command points, communication centers and arms stockpiles, many of which are directly situated, as is well known, in densely populated areas of West European countries."

GATT Ends With Trade Pledge

Participants Are Skeptical of Effect on Protectionism

By Axel Krause
International Herald Tribune

GENEVA — Ministers from 88 industrialized and developing nations ended a tense, five-day conference here Monday with a pledge to promote the liberalization and expansion of world trade. But despite the final declaration, they took little concrete action.

What finally emerged at 3:50 A.M. Monday, following confusing, often bitter debate and negotiation was a 17-page document. But the agreement on the wording was accompanied by widespread questioning of its effect on growing protectionist trends in agriculture and industry. Most participants were skeptical.

Few called the meeting, sponsored by the General Agreement on Tariffs and Trade, successful. Some countries, notably Australia, said the effort to deal with the controversial issues had completely failed, and the final agreement was described as "a package of words."

William E. Brock, the U.S. trade representative, said: "The trading system is still intact."

Mr. Brock said that "substantial gains were made in a number of key areas," citing a pledge to promote liberalization and expansion of world trade, improvements in dispute-settlement procedures under GATT, expanded coverage for import-limitation actions known as safeguards and proposed studies of agricultural trade and the services industry.

But he also conceded that the success was "only partial" and that much remained to be done in the months ahead.

"Our work is certainly not finished," Mr. Brock said.

Although pressed by reporters, the U.S. negotiator avoided any repetition of warnings he had made earlier on the possibility of protectionist legislation in Congress. He said that the Reagan administration would do its best to prevent such legislation from materializing in the weeks ahead.

Congress may even "reserve its judgment — for a bit," Mr. Brock said, indicating that a U.S.-European Community battle over farm exports would surface again. That would most likely be in Brussels on Dec. 10 when top administration and EC officials will meet for a review of trans-Atlantic issues.

Weary but smiling, Wilhelm Haferkamp, the EC commissioner for external relations, said Monday that "we accept and fully support the declaration to overcome

(Continued on Page 2, Col. 6)

United Press International

Arthur Dunkel, left, director-general of the GATT agency, and Allan MacEachen, deputy prime minister of Canada, at the five-day, 88-nation trade conference in Geneva, which ended Monday.

EC, Adamant on Farm Subsidies, Worried by U.S. Dumping Threat

Reuters

BRUSSELS — The European Community emphasized Monday that it had given no commitment to phase out its agricultural export subsidies at the ministerial trade talks just ended in Geneva.

But a European Community official said that the EC was taking seriously U.S. threats to retaliate by dumping food surpluses on international markets.

The official, who declined to be identified publicly, said that a two-year agricultural study agreed to at the General Agreement on Tariffs and Trade agency's meeting would deal only with improving the effectiveness of current trade rules.

A separate EC statement issued Monday parallel to the communiqué of the Geneva conference made it clear that Common Market countries would not relinquish the special status now given to agriculture in world trade, the official said.

That status was negotiated in the so-called Tokyo round of trade talks in the 1970s.

"If you renegotiate the conclusions of the Tokyo round on agriculture," the official said, "you have to renegotiate everything."

But the official acknowledged that the EC was worried that the United States, the main critic of agricultural subsidies, could decide to retaliate by introducing its own cash incentives for agricultural exports.

An assessment of the threat would be made at bilateral trade talks with Washington early next month, he said.

Gaston Thorn of Luxembourg, president of the European Commission, said in a statement that there were no winners and no losers at the GATT talks. The community, he said, had won a realistic accord that rigorously defended the principles of its agricultural policy.

■ **Australia Criticizes EC**

Deputy Prime Minister Douglas Anthony of Australia criticized Monday the outcome of the GATT meeting and the stance of the EC, The Associated Press reported from Canberra.

Mr. Anthony, speaking at a news conference upon his return from Geneva, said the talks were "a fiasco."

He had argued unsuccessfully to have GATT members agree to a freeze on further protectionist policies.

"If I have to blame anyone," he said, "it is the EEC, which just folded its arms at the world and said, 'We are the world and we will make the rules.'"

"Their intractable position," Mr. Anthony continued, "is too much to cope with for many countries, particularly the United States. The U.S. Congress will now pass legislation which will start a subsidy war with Europe with agricultural products."

"Congressmen and senators I spoke with said they had just had enough of European subsidization of exports," he said.

United Press International

Rhona Jane Ritchie leaves London's central criminal court after admitting she passed secrets.

Savimbi's Angolan Rebel Forces Seem to Be Bigger, Better Armed

Keystone

Jonas Savimbi

By Jack Foisie
Los Angeles Times Service

COUTADA DO MUCUSSO, Angola — Jonas Savimbi, now 47, has slimmed down a little. To his followers, however, he is still a giant who is leading his pro-Western guerrillas to victory over the Soviet-backed Angolan government.

Without doubt, his fighting force is larger and better equipped than it was two years ago. As leader of the National Union for the Total Independence of Angola, Mr. Savimbi controls the southeastern third of Angola. Another third, he contends, is in dispute.

As a small step toward his goal of taking Luanda, the Angolan capital, Mr. Savimbi has moved his headquarters north, close to the border of South-West Africa, also known as Namibia. Angola is a large country, however, and Luanda is still far away.

In a recent interview at his headquarters here, in an area that was a game reserve when Angola was a Portuguese colony, Mr. Savimbi said his armed followers numbered 35,000 men and women.

He said 14,000 of them were in regular units directly under his control and that the rest were guerrillas. Two years ago, he said that his army numbered 15,000 armed followers, and he gave no breakdown between regulars and guerrillas.

Using a situation map to illustrate, Mr. Savimbi sprang from his desk, slapped his swagger stick on the map's red spots between the capital and his regular units and said, "These are my guerrillas, and they have taken prisoners within 122 kilometers [75 miles] of Luanda."

Mr. Savimbi, who met with senior State Department officials during a recent visit to Washington, expressed optimism over his group's increased support from congressmen in the United States who admire his anti-Communist stance, which is unusual for a black leader in southern Africa.

Whatever the size of his fighting force, Mr. Savimbi's units are better supplied than they were two years ago. In 1980, he sought to demonstrate his ability to move troops through Angola's trackless, sandy bush country by displaying two captured trucks, one from East Germany and one from Poland.

During the recent interview, the area was full of Soviet trucks, with even an armored car or two. There was also a generator, providing not only lights for thatched huts in the compound but also, on one occasion, enough power for a rock concert.

The Savimbi group is one of three black nationalist groups that combined to overthrow the Portuguese in 1975. After independence, the Marxist Popular Movement for the Liberation of Angola, with Soviet, East German and Cuban military support, ousted Mr. Savimbi's party and the other faction, the National Front for the Liberation of Angola.

Mr. Savimbi said the fighting against government and Cuban forces has increased. "We are involved in very big battles these days," he said. "Not in the hundreds, but thousands" of combatants.

Since July, he conceded, government troops have succeeded in overrunning two of his camps farther south — that is, to the rear of his own headquarters. "The situation was very tough, but since September we are again having the upper hand," he said.

Mr. Savimbi is evasive on the source of his newly acquired military equipment, but it is thought to have come from South Africa. Since most of the vehicles are of Soviet origin they are believed to have been captured by the South African Army during raids into southern Angola against the South-West Africa People's Organization, the black nationalist Namibian guerrilla organization based there.

During the recent interview, Mr. Savimbi said he had held secret talks on three occasions with Prime Minister Pieter W. Botha of South Africa. The South African government has never confirmed that those meetings took place.

Mr. Savimbi said he favored the U.S. initiative for international guarantees of protection for Angola if its present government drives out the Cubans. But he does not want an international peace force to replace the estimated 15,000 to 19,000 Cubans helping the government.

"That would turn Angola into another Lebanon," he said.

British Espionage Cases Multiply; MPs Call For Full Security Probe

By Peter Osnos
Washington Post Service

LONDON — Tales of espionage poured forth across London Monday.

In the most serious case, Hugh Hambleton, 60, a British citizen who most recently taught economics in Canada, pleaded not guilty to spying for the Soviet Union since 1956, including a period up to 1961, when he worked for the North Atlantic Treaty Organization.

Britain's attorney general, Sir Michael Havers, said that Mr. Hambleton told the police he had given the Russians considerable classified material over the years concerning "economics, politics and oil."

"This defendant," Mr. Havers said, "is and was a spy."

The attorney general said Mr. Hambleton had claimed to police that he met with the new Soviet Communist Party leader, Yuri V. Andropov, then head of the KGB, at a Moscow apartment in 1975. He said Mr. Andropov appeared to want an assessment of world trouble spots and suggested the professor run for political office in Canada, using money supplied by the Soviet Union.

The other cases Monday were of lesser magnitude. Rhona Ritchie, a 30-year-old British diplomat formerly stationed in Tel Aviv, admitted to giving confidential information to her lover, an Egyptian diplomat, and was given a nine-month suspended sentence.

The telegrams concerned the setting up of the multinational force to police the Sinai when Israel returned it to Egypt last spring, and in which Britain took part.

An unidentified British lance corporal serving in army intelligence was the final suspect. He is under arrest for allegedly contacting the Soviet Embassy in London during the Falklands war. As yet, however, there is no indication that he actually passed information and the investigation is continuing.

Ordinarily, with the exception of the Hambleton case, the others might have passed unheralded. But the recent case of Geoffrey A. Prime, the Soviet spy who worked for years in Britain's Cheltenham center for electronic intelligence, has given the country a fit of security jitters. The merest suggestion of any further breaches brings renewed calls for a government crackdown.

On Monday, members of parliament of Prime Minister Margaret Thatcher's Conservative Party demanded a full judicial inquiry into the "parlous" state of national security.

Among devotees of British intelligence stories, an echo out of the past this weekend stirred considerable interest. A new book reveals that the British intelligence agency MI-5 employed the late Stephen Ward, long portrayed as a disreputable "society osteopath" in the celebrated sex and security scandal of the early 1960s that forced the resignation of War Minister John Profumo.

Mr. Ward, who committed suicide in 1963, was apparently recruited by MI-5 in an effort to trap a Soviet diplomat who was involved with the same call girl, Christine Keeler, as was Mr. Profumo. At the time, Mr. Ward insisted he had an intelligence connection, but no one believed him.

INSIDE

Cash-Poor Farms Ensnare Kenyans

Despite Gains, Many Cannot Afford to Improve Land

By Leon Dash
Washington Post Service

RETURN TO KILIBWONI
Second of three articles.

KILIBWONI, Kenya — William and Joseph Misoi and Kipsoimo Arap Busienei are ensnared in a poverty cycle of subsistence farming, while many of their Kilibwoni neighbors, with equal amounts of land, gain economic ground each season. The gap between the two groups may soon be unbridgeable.

The lean frames and calloused palms of Mr. Busienei and the Misoi brothers attest to the hard work they do most days of their lives, but their sweat has yet to produce the cash margin they need to make their farms profitable.

The rural poor — people in circumstances identical to those of the Misois and Mr. Busienei — are a constant source of worry to most African governments. None of the three has considered leaving his small farm. But it is from the ranks of them and men like them that the largest percentage of rural migrants emerge in the generally overburdened cities to look for a better life.

Marginally educated and lacking job skills, many of these migrants end up in the shanty slums of Africa's capital cities. Governments on the continent have neither been able to keep up with the social services these new arrivals require nor to effectively halt the crime that inevitably spreads with the slums.

Kenya has been more successful than many other African countries in providing urban amenities for its rural population, such as clean, piped drinking water, free health care and expanding educational opportunities, programs that have been overlooked or unaffordable in many other parts of the continent.

The potential dimensions of the problem for Kenya, however, are reflected in its limited fertile land. That land comprises only 20 percent of the country's area of 224,900 square miles (584,740 square kilometers). Already it is brimming over with an estimated 13 million people on 1.7 million small farms.

It would cost billions of dollars, which Kenya does not have, to bring the remaining 80 percent of the land, which is either marginal or semiarid, into agricultural use.

The capital, Nairobi, a city of almost one million people, has not entirely escaped the migration problem. But of immediate concern to the government is the evident alienation of this migrant underclass. The depth of the estrangement was recently demonstrated when an easily suppressed air force coup attempt unleashed an orgy of looting, vandalism and violence by the Mathare Valley dwellers in the wealthier parts of the city.

However, out in Kilibwoni, 184 miles (295 kilometers) northwest of Nairobi — where I worked as a Peace Corps volunteer teacher in 1969 and 1970 — I was impressed by the amount of progress in the last 13 years and by the daily swirl of development-connected activity.

Almost every day, my host, Subchief Cleopbas Arap Moro, was off to an area chiefs' planning meeting, receiving delegations from other parts of Kenya that had

(Continued on Page 2, Col. 1)

Brazilians Hope Reagan Visit Signals Change

By Jackson Diehl
Washington Post Service

BRASILIA — After a year of South Atlantic warfare and economic crisis, government leaders in Brazil have begun to hope that regional relations with the United States have been jolted into a new and decidedly different direction.

Brazil and other South American countries reached a high point of tension with the United States this year because of what were regarded as punishing U.S. economic policies and U.S. support for Britain against Argentina in the Falkland Islands conflict.

But with President Ronald Reagan scheduled to arrive here Tuesday to begin a five-day visit to Brazil and three other countries, officials say they perceive a U.S. willingness to shift focus.

"There is a show of goodwill," said a Brazilian official. "It is a broader approach, more sensitive to Third World interests."

For Brazil and South America's other major countries, the U.S. effort to repair relations began with its support in the United Nations for negotiations between Britain and Argentina and with Mr. Reagan's sudden decision to travel to Brazil, Colombia and Costa Rica.

But more important, officials here say, has been a new strategy by the Reagan administration to help the region's economies through their worst troubles since the Depression of the 1930s.

Once perceived as insensitive to Brazil's mounting trade problems and $80-billion foreign debt, U.S. officials have now indicated that they will support Brazilian efforts to raise new funds and perhaps plug gaps with direct Treasury loans.

Mr. Reagan's visit to Brasilia and to the financial center of São Paulo is viewed by Brazilians as a clear vote of confidence in their economic management. The result, they say, may be the reassurance of many U.S. banks that have recently shied from lending Brazil money.

Some analysts believe that the U.S. involvement in Brazilian finances and Brazil's strong need for continued U.S. help will propel Brazil toward closer alignment with Washington and its broader regional interests. In recent years, Brazil has shaped an increasingly independent foreign policy stressing relations with Third World nations and North-South issues.

Faced with possible U.S. expectations of greater strategic alliance, Brazilian officials answer that closer economic cooperation after Mr. Reagan's visit will simply help to preserve both U.S. investments and broader interests in the region. This, they add, must be viewed as an end in itself.

As the U.S. recession has continued, almost every South American country has seen the prices of its primary products plunge on metals and commodities markets and the volume of its manufactured sales drop off.

Many Latin governments blame the Reagan administration for both high interest rates, with the double effect of depressing markets and raising foreign debt costs, and U.S. protective measures against subsidized exports to the U.S. market.

Nowhere have the tensions been worse than in Brazil, whose giant foreign debt fluctuates by about $500,000 with every point of change in the U.S. prime rate and whose exports of a range of products, from steel and airplanes to sugar and orange juice, have been limited or threatened by U.S. measures.

U.S. trade remains crucial to Brazil's economy. The United States is the leading customer for Brazilian exports, taking over 19 percent of the total in the first quarter of this year, and it provides about one-third of Brazil's non-oil imports. The total trade was worth about $7.5 billion last year.

Faced with the necessity of gaining large export earnings to balance its foreign payments and keep up with its debt, Brazil this year found its attempts to subsidize exports stiffly opposed by U.S. officials.

Meanwhile, the Brazilian authorities saw their sources of new foreign financing threatened by U.S. efforts to taper off contributions to such organizations as the World Bank and to "graduate" Brazil from eligibility for special loans meant for developing countries.

The Brazilian response was stated most strongly in September, when President João Figueiredo opened the new session of the United Nations General Assembly with a speech saying that "the present economic policy of the great powers is destroying riches" and that restrictions on trade and lending were threatening to touch off a global economic collapse.

With the near breakdown of Mexico's financial system, the flow of U.S. financing to Brazil abruptly dried up in September, leaving the government far short of the funds it needed to meet its obligations to the end of this year.

The only solution, some economists here argue, was for the United States to intervene more actively on Brazil's behalf and help provide the sums the government now needs. U.S. banks hold about 60 percent of the Brazilian debt.

In that sense, these analysts say, the new economic backing and improvement in ties embodied by Mr. Reagan's visit has been less an initiative by either side than a necessity for both.

Pope Plans First Central America Visit in '83

By Richard J. Meislin
New York Times Service

SAN SALVADOR — Pope John Paul II will visit El Salvador early next year, according to a church official here. The trip is also expected to include stops in other Central American countries and in Haiti.

The announcement was made by the auxiliary bishop, Gregorio Rosa Chávez, during the Sunday morning services at the Metropolitan Cathedral here. He said he expected the visit in late February or early March, but gave no further details.

Other church officials have said in recent days that the trip would include stops in other Central American countries — possibly all six of them — and would end at a conference of Latin American bishops scheduled to be held in Haiti.

According to church officials, the pope is expected to make three formal appearances in El Salvador — an outdoor mass, a meeting with clergy and religious workers and another with young people.

The visit would be the pope's first to Central America. It would occur at a time when the church finds itself in an increasingly difficult position in the region, under pressure both from political forces and from the dramatic growth of the evangelical Protestant movement.

Even as the bishop was making his announcement in San Salvador, the evangelical Assemblies of God, led by Roberto Fierra, a California minister, was preparing for thousands of Salvadorans to join him for a prayer meeting in the Rosa Blanca Stadium in the capital. The group claims to have 300 churches and a membership of 200,000 in the country.

The Catholic Church's outspoken denunciations of violence, repression and inequity of wealth in El Salvador have caused controversy and brought violent retribution. Archbishop Oscar Arnulfo Romero was murdered while celebrating mass in March 1980.

The murder remains a sensitive matter here. Some officials — including the former U.S. ambassador, Robert E. White, have linked Roberto d'Aubuisson, now president of the Constituent Assembly, to the archbishop's killing, which could make the government's official greeting of the pope a particularly delicate matter.

The church remains politically active in El Salvador and at odds with the right. In a letter to bishops last summer, the pope urged a peaceful resolution to the conflict through negotiation with the left.

When the country's exiled leftist leaders made their most recent proposal for negotiations to end the war from Mexico last month, the proposal was delivered to the Salvadoran government by Monsignor Rivera y Dámas, the acting archbishop.

In neighboring Guatemala, whose government is also engaged in a war against leftist guerrillas, there have been similar problems.

The pope, in a letter to Guatemalan bishops there in 1980, urged an end to the wave of "discord and hatred," and criticized the violations of human rights in the country.

The church has complained that its workers have been harassed and threatened and, as in El Salvador, some have been killed.

An additional complication in Guatemala is that the country's president, General José Efraín Ríos Montt, is a "born again" Christian and one of the apostles of evangelical Protestantism in the region.

The leftist Nicaraguan authorities have been in a running conflict with the Catholic Church for months. While the church supported the Sandinista overthrow of the dictatorship of Anastasio Somoza in 1979, it has become increasingly concerned over the new government's move toward Marxist principles.

In addition, Nicaragua continues to have a handful of priests serving in its government, in violation of a papal decree ordering the priests to remove themselves from direct participation in government.

TOUR OF DUTY — Helmut Kohl made his first inspection of West German troops Monday since becoming chancellor. He was accompanied by Defense Minister Manfred Wörner, right. They toured a base at Koblenz, where the chancellor stopped to talk to a tank crew.

GATT Ends With Pledge on Trade

(Continued from Page 1)

protectionist pressures, including in agriculture."

But he insisted — as he had during the previous days — that "this is not a commitment to any new negotiation or obligation in relation to agricultural products."

What lay behind much of the inability to tackle the issues — and make trade-liberalization commitments — was the continued skirmishing between the Community and the United States over the Common Agricultural Policy, which the Europeans consider a centerpiece of EC unity. U.S. officials insisted that they were only interested in winning commitments to eventually dismantle allegedly unfair export subsidies.

The solution emerged in the form of an "interpretive" statement, by which the EC dissociated itself from language in the agreement aimed at bringing export competition — and this was the sensitive phrase — "under greater discipline."

Many conference sources saw the final conference declaration, with the EC reservations, as something of a diplomatic victory. "They avoided breaking up the conference. They made their point legally," said a senior U.S. official, "and most important, they are not committed to doing anything — except participating in a work program on agriculture, which includes subsidies."

Trade ministers came to the conference, the first of its kind since 1973, against a background of worsening worldwide recession and spreading protectionism. Officials from developing countries hoped the meeting would improve access to markets in Western Europe and the United States, particularly for agricultural products. And most ministers hoped the meeting somehow would strengthen the workings of GATT as a trade monitoring organization.

"We probably got the best possible deal under the circumstances," a senior official of GATT said, adding, "we think we as an organization will be busy, but not strained in the months ahead." Indeed, in most of the key areas under discussion — agriculture, industrial safeguards, services, trade in industrialized and developing countries — the ministers recommended the launching of studies under GATT auspices.

Developing nations seemed to have fared least well. "Sure, there are some trade expansion phrases and study projects involving us," said a senior Latin American diplomat. "But it is truly difficult to see how we benefit from the agreement. Perhaps the answer, very simply, is that we might be worse off without it."

Despite Progress, Cash-Poor Farms Trap Many in Kenya

(Continued from Page 1)

come to see crop management improvements in his Sigilai district.

The overwhelming impression was one of movement upward. Every conversation I had with friends, eventually came around to the *maendeleo*, "progress" in Swahili, that made the plights of William Misoi, 42, his brother Joseph, 39, and Kipsoimo Arap Busienei, 39, that much starker.

The men are also old friends, and my conversations with them were depressing.

A decade and a half ago, when they were younger and land here was one-tenth the current price of about $700 an acre, the initial start-up costs to get into cash farming were very low. In the last decade, the costs of petroleum-based fertilizers and rental of a diesel-fueled tractor to plow the land have substantially increased the initial investment.

The Misoi brothers have evenly subdivided their late father's 20-acre (8-hectare) farm, where they live with their families. William and his wife, Clementina, have seven children. Joseph and his wife, Susanna, have three children.

Their father had been too poor to send either of them to school, but today all of their children attend. William's eldest have made it to high school with the help of relatives. Secondary school fees in Kenya range from $200 to $400 a year per pupil, well above each brother's yearly income.

"We still struggle each year" for the $10 for each child's primary school uniform, William said as we sat in his traditional Nandi home of mud walls and thatched roof.

It takes $170 an acre to properly prepare the land with a tractor and then plant, fertilize, weed, harvest and shuck hybrid corn for an average yield of 15 bags an acre. The profit per acre at this year's prices is just $24. Agronomists contend that the yield and profits per acre can be more than doubled by using improved planting techniques, but that means little to the Misois. They cannot afford the investment.

Walking through their farms, I saw that the corn was not as far advanced as it should be with the harvest expected to begin in mid-December. "We were late planting because we didn't have the money for the seed," about $5 per bag per acre, Joseph explained.

Also, they used an ox-drawn plow to furrow the seven acres they planted, meaning the most fertile soil could not be brought to the top. They could not afford any fertilizer. They will be lucky to get seven bags an acre for home consumption.

Their neighbor, Mr. Busienei, and his wife, Jepkirong, have four children, Mr. Busienei's elderly mother to look after, four and a half acres of land and no money.

When his father died, Mr. Busienei and a younger brother were left with six acres of land. The brother lives on one, the government took half an acre to build a road past Mr. Busienei's thatch-roofed house and he has been left with four and a half acres.

One and a half acres are planted with corn for the home and six mixed-breed cows graze on the remaining three acres. "They produce very little milk, almost nothing for sale," he shrugged. "There is not enough grass on three acres."

"There is not much else I can do," he said, "but try to earn some money from odd jobs here and there and provide for my family the best I can. My children are lucky that they at least can go to primary school. Like my father, I cannot afford to pay."

NEXT: Kenya can no longer afford high support prices to farmers, yet it must continue to produce food.

Chinese to Unveil New 5-Year Plan To Better Output

Reuters

BEIJING — Prime Minister Zhao Ziyang is to unveil a new five-year economic plan Tuesday, designed to quadruple China's output by the turn of the century.

The sixth five-year plan, which should have been completed in 1981 but was delayed by policy changes, is designed to increase efficiency in China's outmoded industries, in part by increasing management initiative.

Mr. Zhao is to describe the plan, which is expected to spell out China's development priorities up to 1985, in a report to the National People's Congress, China's annual parliament. The congress began its current session Friday.

Professor Xiang Qiyuan, deputy chief of a government economic research center, said managerial initiative would be encouraged by allowing more than 6,000 state-run enterprises to keep some profits for company development. Also, he said, old equipment would be replaced, waste would be reduced and new projects would be started, using China's coal, oil and other energy resources.

2 Killed as Thai Copter Downed By Insurgents

The Associated Press

BANGKOK — Communist insurgents shot down a Thai Army helicopter in southern Thailand, killing two soldiers and critically wounding three others, military officials said Monday.

A spokesman for the Thai 4th Army in the southern province of Nakhon Si Thammarat said the U.S.-built Huey gunship was hit by rifle fire during an anti-insurgency operation Sunday in the heavy jungle of the Banthad mountains.

Ghanaian Takes Defense Position After Aide Quits

The Associated Press

LONDON — A week after an abortive coup against his government, Ghana's head of state, Jerry J. Rawlings, has accepted the resignation of his chief of defense staff, Brigadier Joseph Nunoo-Mensah, and taken over the position himself, Accra radio reported Monday.

The broadcast, monitored in London, said Mr. Rawlings criticized the brigadier for announcing his reasons for resigning to the foreign press and diplomats before notifying him.

The coup attempt by rebel soldiers came the day after Brigadier Nunoo-Mensah announced his resignation, complaining that the country was in chaos. There have been no reports linking him to the rebels or any word on his whereabouts.

The uprising was crushed by troops loyal to Mr. Rawlings. Western diplomats in the capital of Accra said fighting appeared to have been confined to army barracks on the outskirts of the city.

The Defense Ministry has named nine soldiers wanted in connection with the coup attempt, Accra radio reported.

Beijing Protests Hanoi's Claim to 2 Island Groups

United Press International

BEIJING — China charged Monday that Vietnamese claims to part of the Gulf of Tonkin and two island groups was an "expansionist" scheme to take Chinese territory, Xinhua said.

A Foreign Ministry statement called recent claims by Vietnam on the disputed Paracel and Spratly Islands, also known as the Xisha and Nansha Islands, "illegal and null and void," the Chinese news agency said. Vietnamese authorities "must bear full responsibility for all serious consequences that may arise," the statement said.

On Nov. 12, Vietnam said that China and France signed an agreement in 1887 that defined the maritime boundary in the Gulf of Tonkin, also known as the Beibu Gulf. Vietnam also described the Paracels and Spratlys, which lie in the South China Sea hundreds of miles to the south, as Vietnamese territory.

The Chinese protest said Hanoi's statements distorted history and that no boundary in the Tonkin Gulf existed.

WORLD BRIEFS

U.S. Cites Proof of Soviet Gassings

WASHINGTON (AP) — The State Department said Monday it had fresh, conclusive evidence that the Soviet Union was using poisonous chemicals and toxins in its war in Afghanistan and supervising their use in Cambodia and Laos.

A report by the department said that evidence from Afghanistan included two Soviet gas masks bearing traces of toxins that cause blistering, nausea and vomiting. The report said trichothecene mycotoxins have been used by Soviet forces in Afghanistan since at least 1980 and cited reports from guerrilla sources that at least 100 persons were killed in attacks in Afghanistan in 1982.

As for Southeast Asia, the report said the known number of victims from 1982 attacks in Laos included 235 dead, all tribesmen in the Phou Bia mountain area. The total in Cambodia was 65.

High Court Acts on Nixon Tapes

WASHINGTON (UPI) — The Supreme Court cleared the way Monday for the release of 6,000 hours of President Richard M. Nixon's Oval Office tape recordings. Without comment, the justices rejected Mr. Nixon's attempt to keep the public from listening to the tapes.

The move was a defeat for Mr. Nixon, who resigned Aug. 9, 1974, under threat of impeachment during the Watergate scandal. But it did not guarantee that all the White House tapes would be released as planned in 1984 or 1985. Mr. Nixon or those named or involved in the recorded conversations still can try to block release on a tape-by-tape basis if they feel that it would violate privacy rights or executive privilege.

Only 31 tapes have been made available to the public; these were the tapes introduced at the Watergate cover-up trials of Mr. Nixon's former aides.

Some Free Democrats Form Party

BONN (AP) — Dissenting Free Democrats formed a new party to protest the liberal alliance with the conservative Chancellor Helmut Kohl, prompting party leaders to denounce the mavericks Monday as rejecting "liberal policies."

The split, coupled with recent party defections, cast doubt on whether the Free Democrats will be able to survive national elections planned next March. The new party, called the Liberal Democrats, was formed in Bochum on Sunday by about 1,500 dissenting Free Democrats.

The Free Democrats, headed by Foreign Minister Hans-Dietrich Genscher, split this fall with their former ally, former Chancellor Helmut Schmidt, a Social Democrat. The Free Democrats joined the Christian Democrat-Christian Social alliance to depose Mr. Schmidt and replace him with Mr. Kohl.

Russia Replaces Railroad Minister

MOSCOW (AP) — The Soviet Union announced Monday a shakeup at the Railroad Ministry.

Tass said that the first deputy railroad minister, Nikolai S. Konarev, had been promoted to minister. The official press agency did not say what had happened to Ivan G. Pavlovski, who ran the ministry for nearly six years.

During a speech Monday to the Communist Party Central Committee, the new party leader, Yuri V. Andropov, singled out the Railroad Ministry for poor performance. He said it had been "deteriorating from one year to the next despite the substantial assistance given" by the government.

Denmark Still Resists EC Fish Policy

BRUSSELS (AP) — Denmark maintained its veto Monday against a common European fishing policy, and its nine partners in the European Community decided to prepare national measures to protect their waters against Danish fishermen.

The only hope was that the deadlock would be broken at the European summit meeting Friday and Saturday in Copenhagen under Denmark's presidency.

EC ministers in charge of fisheries, meeting again Monday to try again for an agreement, offered Denmark no concession on the common fishing policy that they adopted Oct. 26. It sets fishing quotas for each member state. Denmark claims this policy is unfair, because it reduces its quota from 27 to 21 percent of the fish in Common Market waters, while raising the British quota from 32 to 51 percent.

327 More Polish Prisoners Released

WARSAW (AP) — An additional 327 men and women detained by the martial law authorities have been released in recent days, the Polish press agency reported Monday. This reduced the number of those believed still being held to around 700.

They were freed because of "the progressing stabilization" and the "improvement of public order and security in the country," the press agency said. It was the largest release of internees reported since July, when the authorities freed 1,227.

More than 4,500 members and supporters of the independent Solidarity trade union movement were seized after the martial law crackdown Dec. 13. More than half those originally detained were reported released before demonstrations in three Polish cities Nov. 10. The authorities interned about 800 more men and women during those protests.

For the Record

TEL AVIV (AP) — An Israeli soldier died Monday of wounds suffered in the Nov. 11 cooking gas explosion at Israel's military headquarters in Tyre, Lebanon, the military command said. The death brought to 76 the number of Israelis killed in the blast. Fourteen Arabs died and 27 Israeli troops were injured.

SANTIAGO (Reuters) — Dagoberto Cortes, 36, the deputy leader of Chile's banned Revolutionary Left Movement, was killed Sunday in a clash with security agents, the National Information Center reported Monday.

BYTOM, Poland (AP) — Fire touched off an underground coal gas explosion in southern Poland's Dymitrow mine early Monday, killing 18 members of a firefighting crew and seriously burning eight others, a mine official said. The fire broke out in the shaft Sunday night, "presumably as a result of the spontaneous ignition of coal," the official news agency, PAP, reported.

U.S. Changes Course On Minuteman, B-52 To Abide by Treaties

By Walter Pincus
Washington Post Service

WASHINGTON — The Reagan administration, partly because of congressional pressure, has reversed itself in recent months on two decisions that might have violated provisions of arms control agreements with the Soviet Union.

Fifty Minuteman-3 intercontinental missiles will not be deployed as originally planned because their multiple nuclear warheads might have violated SALT-2 limits. And, according to Defense Department officials, identifying devices will be put on U.S. B-52 bombers carrying nuclear-warhead cruise missiles so that they can be counted by the Russians, as required in the SALT-2 agreement.

Although the Senate has not ratified SALT-2, both the United States and the Soviet Union have abided by its provisions while attempting to negotiate a new strategic arms treaty.

Late last month with almost no publicity, representatives of the United States and the Soviet Union in Geneva began the required five-year review of the 1972 antiballistic missile treaty, with the Reagan administration saying it was satisfied with compliance to date and would not ask for changes, according to Capitol Hill sources.

These moves come at a time when the Reagan administration is being questioned by U.S. critics and the Russians about its argument that "dense pack" deployment of the new MX intercontinental missile would not violate either the SALT-1 or SALT-2 arms control agreements.

In the case of the Minuteman-3 missiles, congressional pressure played a large role in the administration's change of direction. In January, the Air Force budget contained a request for $15 million to place 50 Minuteman-3 missiles, each with three warheads, in silos now occupied by older, single-warhead Minuteman-2s.

Several months later, that proposal was dropped in the House-Senate conference on the fiscal 1983 defense authorization bill. Administration support for the funds was reversed, according to Senate sources, after House members and administration arms control officials raised questions about it.

According to a House staff member who worked on the bill, congressmen objected to the plan because the new missiles would bring the total number of U.S. multi-warhead weapons over SALT-2 limits. In addition, the Minuteman-2 silos, another House aide said, would have to be modified beyond what was allowed by the treaty.

Instead of being deployed, the 50 Minuteman-3 missiles were put into storage as part of the replacement stock for the six missiles the air force tests each year.

The air force also had planned to save $89 million by not putting an identifying device on B-52s that carry cruise missiles as required by SALT-2. It was listed earlier this year among the savings made in the Defense Department under Secretary Caspar W. Weinberger and justified by the failure of the Senate to ratify the SALT-2 agreement.

Now, however, the modifications are being made. Visible metallic holders — called FRODs, for functional related operational differences — are being added to the wings of B-52s that have been turned into cruise missile carriers so the Russians can identify them and make it easier for them to count the number of nuclear weapons carrying multiple warheads.

Early in the Reagan administration, other proposed modifications of new nuclear weapons systems were turned down within the Pentagon because they would violate SALT-2 limitations. One was a plan to increase the cruise missile load of the new B-1B bomber, which could take up to 22 of the missiles. But it was kept at the SALT-2 limit of 20.

Another possibility was to increase the number of individual warheads on the proposed MX missile. It could carry up to 14, according to air force sources, but will be held to the limit of 10 set by SALT-2.

The Associated Press

PLEASE OMIT FLOWERS — Members of the "Bring the MX Missile to Pasadena" group marched through the streets of the California city during the annual "Doo-Dah Parade." The event began six years ago to spoof Pasadena's New Year's Day Rose Parade.

Congressional Critics Sharpen Attack on Reagan Plan for MX

By Richard Halloran
New York Times Service

WASHINGTON — The confrontation over the new MX intercontinental nuclear missile has intensified with Senator Henry M. Jackson, a Democrat from Washington, asserting that President Ronald Reagan's basing proposal, popularly known as "dense pack," would be secure for only four years.

At the same time, the Congressional Budget Office issued an analysis contending that the $26-billion plan to build and base 100 MX missiles would make a "relatively small" contribution to U.S. strategic capabilities.

Senator Jackson, a member of the Armed Services Committee and a longtime, influential advocate of tough opposition to Soviet policies, said Sunday he favored building the MX but that the basing plan left it in "deep trouble" with Congress.

Then, Senator Ernest F. Hollings, a South Carolina Democrat, renewed his attack on the president's plan as unworkable and too expensive. Speaking on television, he urged that a mobile missile be developed and that the present Minuteman intercontinental missile force be protected with a defensive system.

From the Soviet Union, a leading specialist on relations with the United States, Georgi Arbatov, said on the same program that MX missiles would not serve as a "bargaining chip" in negotiations to reduce nuclear arms.

"The bargaining chip never works," he said. "It was only a pretext, you know, for building new weapons systems." He added: "It will only mean that we shall be obliged to answer with something."

For the administration, Defense Secretary Caspar W. Weinberger adamantly defended the president's plan, asserting that the dense-pack system would work, was necessary for deterrence and would provide an incentive for Soviet negotiators for further disarmament talks with the United States.

Also speaking on a television interview program, Mr. Weinberger restated the administration's plan to build an anti-ballistic missile system, estimated to cost about $12 billion, if the Soviet Union changed its target plans or acquired new weapons that would put the dense-pack array in danger.

Mr. Reagan made public last week the latest of more than 30 plans for basing the MX missiles, this time with 100 missiles encased in hardened silos built close together in Wyoming.

The president's proposal may be vetoed by Congress within 30 legislative days. Senator Howard H. Baker Jr. of Tennessee, the majority leader, said he thought the issue was "not likely to be settled" during the special session of Congress that opened Monday.

Senator Jackson said in a telephone interview that, for the dense-pack plan, "the period of immunity from elimination by a Soviet first strike is only about four years."

He said he based that estimate on discussions with experts on Soviet nuclear weapons and tactics. The administration plans to deploy the first MX missiles in late 1986.

The report from the Congressional Budget Office said staff members could not judge the complicated technical issues of closely spaced basing.

Their report asserted, however, that "even if closely spaced basing works and the MX survives in substantial numbers, the percentage contribution to United States strategic capabilities would be small."

The report said that when all the new bombers, missiles and submarines in the administration's $180-billion program to improve nuclear deterrent have been fielded in 1996, "the contribution of the MX would range from about 5 percent to about 13 percent."

EC Grants Aid to Africans

The Associated Press

BRUSSELS — The European Community said Monday that it has granted $2.68 million in aid to buy equipment for farm teaching centers in Upper Volta.

Reagan's Advisers Reported to Differ On Moving Up July 1 Tax Cut to Jan. 1

Washington Post Service

SANTA BARBARA, California — President Ronald Reagan, nearing a final decision about whether to ask Congress to accelerate the third stage of his income tax cut, has received differing internal advice on the political and economic merit of the idea, according to administration officials.

The tax cut is scheduled for July 1. The suggestion is that it be brought forward to Jan. 1.

Administration officials said Sunday that a group of top advisers in the White House and the administration are said to have urged Mr. Reagan, in a memorandum last week, to seek the tax cut earlier. But others, they said, including David A. Stockman, director of the Office of Management and Budget, and Martin Feldstein, chairman of the Council of Economic Advisers, expressed doubts about it.

Mr. Reagan, spending the Thanksgiving holiday at his mountain ranch near here, was to return to Washington Monday evening.

White House officials said Mr. Reagan will make a decision on the tax cut by Tuesday morning, when he meets with Republican congressional leaders before departing for his five-day tour of Latin America.

Robbers Kill Man For a Coat in N.Y.

The Associated Press

NEW YORK — A man was killed outside his apartment and a high school teacher was critically wounded in a subway train by young attackers with guns who were after coats, police reported.

The police said that the separate weekend shootings were two of a series of robberies aimed at leather, sheepskin and lambskin coats. The coats are reportedly delivered to intermediaries who pay $75 or more for them.

Five persons were arrested and two suspects were being sought in the two attacks.

Zia Sees National Vote In 2-3 Years but Only If Stability Is Likely

By William K. Stevens
New York Times Service

ISLAMABAD, Pakistan — Pakistan should be able to hold its first general election since martial law was declared here in 1977 "within two to three years," President Mohammed Zia ul-Haq said in an interview.

Less than a year ago, Gen. Zia appeared to have dropped the idea of free national elections, after earlier pledging to hold them, on the ground that no honest and stable government would emerge from them.

Now, he said, conditions are evolving to the point where the election will be held "not in too near a future," but "not in too distant a future," either. "It's very difficult to give a time frame," he said, but added that "within two to three years we should be able to hold a general election."

Gen. Zia is scheduled to make a goodwill visit to the United States for approximately a week, beginning Dec. 6, at President Ronald Reagan's invitation, to confer with the U.S. leader and other American officials.

In the interview, conducted in a the president's private residence in neighboring Rawalpindi, Gen. Zia also said that there was "no solution in sight" to the Soviet occupation of Afghanistan.

Pakistan has been conducting indirect, preliminary talks on the issue with the Soviet Union under the auspices of the United Nations. But Gen. Zia said that insofar as Pakistan was concerned, no political solution is possible unless all Soviet troops are withdrawn and Afghanistan regains its "nonaligned status."

The Pakistani leader, who came to power in a bloodless coup more than five and a half years ago, said that his apparently friendly meeting with Prime Minister Indira Gandhi in New Delhi earlier this month "has certainly allowed us to be a little more optimistic" about the prospects for "peaceful" ties with India, a neighbor with which it has fought three wars in 35 years.

Gen. Zia and Mrs. Gandhi met in New Delhi only briefly, while the general was on his way to visit several East Asian countries. They agreed to the early establishment of a bilateral commission to work out differences between the two countries.

In elaborating on the meeting during the interview here, Gen. Zia was somewhat more restrained than in his remarks after the talks when he said they had "paved the way for a better relationship."

He said here that some "very thorny problems" remain, including the unsettled territorial status of Kashmir. But he said that Pakistan was determined to "open up a new chapter" in relations with India, and that he hoped India would reciprocate warmly. Asked whether he thought Mrs. Gandhi also had seemed as if she wanted to take such a new turning, he answered: "From our meeting I felt that she's responsive."

AP
Mohammed Zia ul-Haq

On the question of free elections, Gen. Zia noted that the democratic tradition had never become firmly established in Pakistan. As the result of the second of the two national elections that Pakistan has held, in 1977, he said, "the country was on the brink of civil war and we had to intervene in order to save it."

In Pakistani politics, he said, there has been no stability. "The political parties have no political acumen as such," he said. "There is no ethics in politics in Pakistan. Pakistani politics means violence. Pakistani politics means character assassination, and Pakistani politics means [to] get hold of power and then use it best to your advantage.

"Before I hold an election," he continued, "I should be able to foresee some positive results of the election .... What I mean is that after the election, there should be a strong and stable government that has been returned to office by the people; not by coercion, not by enforcement, and not by any underhanded means."

Gen. Zia, who is known as a devout Moslem and who has been trying to order Pakistani society according to Islamic principles, said the best leaders should live according to Islamic values.

Holding an election, he said, is a means of achieving an end, not an end by itself.

He said that democratic elections had already been held, and that popularly chosen leaders were governing, at the local and provincial level.

OAU's Summit Collapse: Assessing the Blame

As Accuser and Accused, Qadhafi Is Focus of Failure

By Charles T. Powers
Los Angeles Times Service

TRIPOLI, Libya — The Libyan leader, Colonel Moamer Qadhafi, blamed it on the United States, France, Britain, Israel and South Africa, which included most, but not all, of his pantheon of demons. They all, he said, had done their part to wreck his long-planned

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summit meeting of the Organization of African Unity.

Others believed the blame should be laid closer to Tripoli, as the chieftains of the OAU packed last Friday and hurried away, leaving Colonel Qadhafi with his empty new hotels.

When the OAU meeting broke up Thursday evening, failing for the second time in four months to muster a quorum for the summit meeting, it capped the most difficult year in the organization's 19-year history, bringing it closer to complete collapse than ever before. But it may be too early to write the obituary of the 51-member body.

The fight that broke up the summit conference this time centered on Chad — whether it would be represented at the meeting by the current occupant of the Chadian capital, Hissène Habré, or by Goukouni Oueddei, Colonel Qadhafi's most recent client in the seemingly endless Chadian conflict.

The argument divided the OAU into two broad camps: the "radicals," who lined up with Colonel Qadhafi in support of Mr. Goukouni, and the "moderates," states like Morocco and Senegal, who supported Mr. Habré.

A division along almost identical lines brought about the collapse of the attempt to hold a summit in Tripoli in August. The issue then was the admission to the Organization of the Polisaro Liberation Movement as the Saharan Arab Democratic Republic, which is fighting Morocco for control of the Western Sahara. OAU leaders thought they had solved the problem — at least temporarily — by persuading the Polisario representatives to stay away from this summit meeting.

But there was another, probably far more important force at work in Tripoli. That was Colonel Qadhafi himself, who would have taken over the chairmanship of the OAU had the summit gone on as planned. It is not the way of African leaders to cast aspersions on each other, so nothing was said publicly about the prospects for Colonel Qadhafi's stewardship of the organization. But, however circumspect, there were misgivings. The foreign minister of one moderate African nation told a reporter that the summit would have gone on as scheduled had it been held "anywhere but Tripoli."

Colonel Qadhafi began the ministerial meetings in Tripoli about two weeks ago with one of his more intemperate readings of continental affairs, blasting Zaire for establishing diplomatic relations with Israel, and went on to lash all the states in French-speaking Africa that attended the Francophone Africa summit in Kinshasa, Zaire, there to meet with French President François Mitterand.

In one blow, Colonel Qadhafi had alienated about one-third of the nations on the African continent. In retrospect, it is a matter of no small wonder that 45 nations actually turned up in Tripoli at the time of the summit, although only 32 actually were officially registered for the meeting.

The curiosity is that Colonel Qadhafi thought that his plans for a summit could continue in the face of such broad-stroke insults. And in the minds of many African leaders, the outburst must have raised questions over Colonel Qadhafi's fundamental stability, even more his fitness to speak for the continent during troubled times.

Colonel Qadhafi's meddling in African political affairs was a sore point with many OAU members about two years ago, and Libyan "People's Bureaus," or embassies, were tossed out of half a dozen African countries. But, as the year before the Tripoli summit progressed, fewer complaints were heard and a general feeling surfaced that Colonel Qadhafi had either gained some maturity or was on his best behavior.

Now, however, old suspicions are resurfacing, fueled in part by Colonel Qadhafi's open support of Mr. Goukoni in the battle for Chad. There are also fears that Colonel Qadhafi might use his own army in the efforts.

Such a prospect gives no comfort to states surrounding Chad, for Colonel Qadhafi has long talked about the formation of a sort of Moslem Saharan superstate with, of course, himself as leader. Whatever the fears of African leaders regarding Colonel Qadhafi, the fact remains that the OAU has a problem on its hands.

At the close of its meeting Thursday — a meeting conducted with four states short of the number of 34 required for a quorum — 12 nations were chosen as a committee to decide upon the next move. It is assumed that the 19th summit — which this one would have been — must be held before the 20th, now set for May in Conakry, Guinea, can go forward, according to the OAU charter.

It is possible that the 12 nations will decide to call for an "extraordinary summit" in Addis Ababa, Ethiopia, the seat of the OAU Secretariat, and agree that, whatever its shortcomings, the OAU is an idea worth continuing and supporting.

In his closing remarks to the meeting Thursday, Colonel Qadhafi, in somewhat boastful tones, pointed out that the split over the Polisario and Chad would not go away and that Africa would remain deadlocked. If Africa failed to go his way, he seemed to be saying, it would not go at all.

It is true that the OAU, much like the United Nations, is mostly immobilized over its major problems. It has been unable to resolve the Western Sahara problem despite years of trying. It has been unable to stop the sporadic conflict inflaming the Horn of Africa and the Ogaden. It has not liberated South Africa, nor brought Namibia to independence. It had no role, even, in the triumph of independence for Zimbabwe. Its sole effort at mounting a peacekeeping force, earlier this year in Chad, was a thorough failure. And, on top of everything else, it is broke.

Perhaps its most important achievement has been to get everyone to agree, at least in principle, to accept the often unfair and illogical boundaries imposed upon the continent by colonialism, recognizing that to begin changing them would lead to chaos. Like most rules of conduct, such as the OAU pledge of noninterference in the affairs of neighbors, the inspiration is finally self-interest, but there is no telling how much misery the principle has helped Africa to avoid.

Mitterrand, in India, Calls for Partnership

The Associated Press

NEW DELHI — President François Mitterrand of France, whose government signed an agreement during the weekend to supply nuclear fuel to India, told Parliament Monday that France wanted to improve relations with New Delhi.

With legislators of both houses thumping their desks in approval, Mr. Mitterrand declared:

"What we have in common is a preoccupation that the system of military bloc rule and their confrontation, which tends to govern the evolution of the whole world, should not continue forever. The right conditions exist for a new departure in the history of relations between our two countries."

Mr. Mitterrand's four-day visit had an auspicious start Saturday when France and India signed the uranium fuel agreement just hours before he arrived. That cleared the way for France to replace the United States as India's nuclear fuel supplier.

United News of India quoted government sources as saying Mr. Mitterrand had personally intervened to complete French concessions that included dropping inspection conditions.

The United States agreed in 1963 to supply the U.S.-built Tarapur nuclear power plant for 30 years.

But in 1978, the U.S. Nuclear Nonproliferation Act banned delivery of U.S. nuclear material or technology to countries refusing to allow international inspection of their entire nuclear power programs. India objected to the new conditions.

When Prime Minister Indira Gandhi visited Washington in July, an arrangement was worked out for France to take over supply of uranium for Tarapur, which provides light and power to the Bombay region.

India exploded an atomic device in 1974, joining the small group of countries with the proven ability to make nuclear weapons.

Zimbabwe Announces Ambitious 3-Year Plan

Reuters

HARARE, Zimbabwe — Zimbabwe unveiled Monday an ambitious three-year development plan calling for large-scale growth and foreign and domestic investment to meet its socialist goals.

The program, whose cost is put at 6.1 billion Zimbabwean dollars ($7.9 billion) and is designed to rebuild the war-damaged economy, assumes an average net growth rate of 8 percent a year until 1985.

The finance and development minister, Bernard Chidzero, said Zimbabwe's population of 7.5 million was increasing by 3 percent a year and that economic growth must average 8 percent to cope with this. "Below that we are sunk," he added.

Economists have predicted growth of between 2 and 3 percent this year compared with an average of 12 percent annually since independence in April 1980.

The plan assumes that retained earnings and savings by companies in Zimbabwe will produce 3.8 billion Zimbabwean dollars, or 62 percent of the funds required, while the balance of 2.3 billion Zimbabwean dollars will come from abroad through aid, investment and loans.

Mr. Chidzero said foreign private investors as well as governments would be cultivated assiduously.

He said the government was committed to its socialist ideals of fairer distribution of wealth and land, and that 59 percent of investment would go to the public sector.

The government believes, however, that private businessmen have an important role to play. The minister said private industry, dominated by the white minority that lost political power to the black majority in the Rhodesian civil war, would be reassured it had a future.

If the plan's targets are met, the biggest growth would be in construction, with an annual increase of 15 percent, followed by manufacturing, with an increase of 11 percent.

China Seeks To Allay Fears On Hong Kong

Reuters

HONG KONG — China is going out of its way to reassure Hong Kong's businessmen about the future of the British colony. Like Britain, China has stated that it is committed to maintaining Hong Kong's continued stability and prosperity.

But local businessmen have been making the trip to Beijing to find out what the Chinese plan to do with Hong Kong when most its land area reverts to China by 1997 under the agreement with Britian.

A leading Hong Kong industrialist who returned from a visit to Beijing recently said he had been told that details about the colony's future will be announced within a year.

Meetings between British and Chinese officials in Beijing following Prime Minister Margaret Thatcher's visit in September are being kept secret. But comments have been flowing from the Chinese side.

Hwang Jen, chairman of the Hong Kong Factory Owners Association, said a senior Chinese official had told him that the capitalist system here would be retained once China takes over.

He also said that Liao Chengzhi, director of the state council's overseas-Chinese affairs office, told him that foreign investments would be protected.

But Mr. Hwang said he had been warned by Mr. Liao that China would regain sovereignty over Hong Kong at any time if the local economy continued to deteriorate.

Hong Kong stock prices and the local dollar have been slipping since Mrs. Thatcher's talks in Beijing, although most bankers blame the situation mainly on the world recession.

Mr. Hwang indicated that on the basis of his Beijing talks the future governor or mayor of Hong Kong would be a local Chinese and that Hong Kong would be run as a special administrative zone.

He said officials of Beijing's Bank of China told him the bank was considering offering low-interest loans to help Hong Kong industrialists ride out economic difficulties. "It is clear that Hong Kong will remain a capitalist society and we will continue to live in a stable and prosperous place, as before," Mr. Hwang said.

Chinese officials said in Beijing earlier this month that Hong Kong would be ruled autonomously by its own people after China gained sovereignty. Hong Kong would retain its status as a free port and financial center and the life of its residents would remain unchanged, the officials said.

Israeli Starts Visit to Zaire

Reuters

KINSHASA, Zaire — Foreign Minister Yitzhak Shamir of Israel arrived in Zaire Monday on a three-day official visit to strengthen links renewed six months ago after a nine-year break. Prime Minister Menachem Begin has been due to come to Kinshasa for several months, but his visit has been postponed due to the Israeli invasion of Lebanon and other factors.

China Reported to Hold Editor as Spy for U.S.

The Associated Press

BEIJING — The editor in chief of a prominent Chinese Communist newspaper in Hong Kong has been held for six months in Beijing pending investigation of allegations that he spied for the United States, well-informed Chinese sources said Monday.

Lo Fu, the editor of Xin Wanbao, the New Evening Post, was recalled to Beijing in May and has been under house arrest, the sources said.

The sources said that the police in Beijing recently told a group of inquiring Chinese writers that Mr. Lo had been working for U.S. intelligence groups.

The writers were about to travel abroad for a conference and they were preparing themselves for questions about the disappearance of the editor, the sources said.

It was not known if Mr. Lo has been formally charged and the precise accusations were not disclosed.

The information department of the Chinese Foreign Ministry had no immediate comment.

A police spokesman said: "We have no responsibility to make announcements to foreigners."

Mr. Lo, in his early 60s, has been a strong spokesmen for the Chinese position on major domestic and foreign policy issues. He has many foreign acquaintances and is well-known to journalists and diplomats in Hong Kong.

In May, China sentenced the editor of a Beijing economic journal to five years in prison for leaking state secrets to a foreign journalist. Those secrets were the time, place, agenda and discussions at a Communist Party Central Committee meeting.

"Mr. Lo's case involving the Americans was much more complicated," a source said.

Last spring the former propaganda chief of the party, Wang Renzhong, publicly warned that there were many foreign spies in China.

Mr. Lo, a member of the party, has been editor of the Communist newspaper since 1951. He wrote a daily column under the pen name of Yang Zhu and his writings on U.S.-Chinese relations were carefully studied by Chinese as well as by foreign China watchers. His newspaper was considered somewhat progressive.

The editor is known as an art collector and has children studying in Britain.

The U.S. government has invited Mr. Lo to visit the United States. The first invitation was extended in 1972. The last invitation was extended earlier this year and he was asked to travel as a special guest under the international visitor program, a U.S. diplomat said.

The invitation was never accepted.

His detention has sparked a controversy in the Hong Kong press. Many journalists claim he is completely innocent and the victim of internal party bickering.

Sources in Hong Kong reported that Mr. Lo's wife, also a party member and journalist, was allowed to visit him in Beijing last summer and then returned to Hong Kong.

Manila Defends Policy Of Arresting Priests

The Associated Press

MANILA — Defense Minister Juan Ponce Enrile defended the government's policy of arresting dissident clergy and asked Roman Catholic bishops Monday to help control what he considered were errant priests.

In a three-hour meeting with nine Catholic bishops and a dozen high-ranking military officers, Mr. Enrile took a tough stand against what the military contends is growing anti-government activity by Catholic clergy in the rural Philippines. More than 85 percent of Filipinos are Catholics.

Mr. Enrile said he would resign his office before ordering the release of the Rev. Edgar Kangleon, a rural priest who has been arrested on charges of subversion.

Newspaper reports said the government also has charged six other priests, two nuns and 14 lay church workers with supporting communist rebels. President Ferdinand E. Marcos claimed in a televised speech Sunday that the church was preparing for a "period of bloody confrontation."

Archibishop Antonio Mabutas, chairman of the Catholic Bishops Conference, which requested Monday's meeting, said the bishops would like to believe assurances that the military has not launched a systematic campaign against the church.

"But we ask that the assurances be substantiated, not with words but with concrete actions," Archbishop Mabutas said.

The nation's most influential Roman Catholic prelate, Cardinal Jaime L. Sin of Manila, who has defended dissident priests and criticized government abuses, is not an officer of the bishops' conference and did not attend the meeting Monday.

The church and military leaders agreed to an exchange of documents and scheduled another meeting to be held in about three weeks.

Mr. Enrile promised to turn over a document he said had been taken from subversives four years ago and that would show why the military is concerned about church dissidents. He did not elaborate on its contents.

The church agreed to list its social action programs, which have been the target of military raids.

General Fidel Ramos, head of the constabulary, asked the bishops what they intended to do about a pastoral strike announced Sunday by priests in 16 parishes on the troubled island of Samar, 350 miles (560 kilometers) southeast of Manila.

General Ramos said the refusal of priests to celebrate Mass to protest what they regard as military oppression could lead to "peace and order problems."

Bishop Filomeno Bactol of Calbayog, Samar, said that he opposed the priests' threatened action but added that it was rooted in valid complaints against the military, including the harassment of priests and lay workers, the confiscation of church equipment and the arrest of Father Kangleon.

Bishop Bactol asked Mr. Enrile to release the priest to his custody.

Mr. Enrile said it would show weakness on the part of the government if he gave in while the priests were striking.

Mr. Enrile asked how bishops could stop priests from working against the government. Archbishop Mabutas said the bishops could apply sanctions but would take such steps only as a last resort.

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Pravda Says Russians Are Ready to Establish Relations With Albania

By Dusko Doder
Washington Post Service

MOSCOW — The Soviet Union, in a strong and direct appeal to the Communist leaders of Albania, proposed Monday "honest, equal and mutually beneficial" cooperation to end a 22-year breach in relations between the two countries.

The newspaper Pravda linked the offer directly to the new Soviet leader, Yuri V. Andropov. Pravda said Mr. Andropov had Albania in mind when he spoke Nov. 22 of his "sincere wish" to develop and improve relations with all socialist countries.

Mr. Andropov made no direct reference to Albania in the speech.

Relations between the former allies were ended in November 1960 when the Albanian leader, Enver Hoxha, last visited Moscow. According to an official Albanian account of the visit, Mr. Hoxha bitterly quarrelled with Khrushchev, the Soviet leader at the time, and Mikhail A. Suslov, then the Kremlin's chief ideologist.

The same account mentions that the Albanian leadership, before meeting Mr. Khrushchev and Mr. Suslov, had a reasonably friendly meeting with Mr. Andropov, who at the time served as chief of the Soviet Central Committee's department for relations with other Communist countries.

The Soviet Union and Albania broke off relations in early 1961 over ideological differences and what Albanians asserted was Moscow's interference in their internal affairs. Mr. Hoxha subsequently allied his country with China.

China was Albania's only ally until 1978, when the nations formally broke over Beijing's policy toward the United States. Albania has since been isolated from the outside world.

Mr. Hoxha, 74, who has ruled Albania's 2.7 million people for 38 years, has frequently made news by purges of the party leadership. Virtually all top leaders during the last three decades have been executed on charges of having worked for the intelligence services of the United States, the Soviet Union and Yugoslavia.

Most recently, Defense Minister Kadri Hasbia disappeared under mysterious circumstances. He was the brother-in-law of Mehmet Shehu, a former prime minister and Mr. Hoxha's closest associate for more than 30 years. Mr. Shehu was officially reported to have committed suicide in December 1981, but many believe he was killed.

Monday's overture to the Albanian leadership made no mention of Mr. Hoxha. The Pravda article, in contrast to previous such commentaries, refrained from criticizing the leadership.

The only critical reference spoke of the Albanian leadership "at the beginning of the 1960s" as having adopted a policy of "terminating political, economic and cultural relations" with the Soviet Union and other socialist countries.

The present state of relations, Pravda said, is not in the interest of either country and is harming "the work of socialism and the anti-imperialist struggle."

Brenner Pass Truck Delay

The Associated Press

BOLZANO, Italy — A 24-hour strike by Italian customs officials created a huge truck jam at the Brenner border point, with nearly 1,000 vehicles backed up on the Austrian side, authorities reported Monday.

The Associated Press

ACID RAIN PROTEST — A West German woman in a traditional Black Forest dress *protested acid rain Monday, at the Interior Ministry in Bonn. About 30 people took part in* the protest and displayed trees they said had been damaged by acid rain. Such rain, as much as 20 times more acidic than normal, is formed when airborne pollutants combine with water.

Spadolini Party Holds Up Attempt By Fanfani to Form New Coalition

Reuters

ROME — The attempt by Prime Minister-designate Amintore Fanfani to solve Italy's two-week-old government crisis was set back Monday when one of the prospective coalition members said it would not join the new regime.

The Republican Party of outgoing Prime Minister Giovanni Spadolini announced that it would not participate in the proposed Fanfani administration, but it left open the possibility of further negotiations.

Mr. Fanfani had been expected to announce the formation of Italy's 43d postwar government on Monday. Instead, he called a meeting of his own Christian Democrats, along with the Socialists, Social Democrats and Liberals, to discuss the impact of the Republicans' move on the coalition's policies and the distribution of ministerial portfolios, parliamentary sources said.

Announcing their decision, the Republicans said they were against a new, weaker version of the economic austerity measures that were agreed upon in talks last week. But they said they might change their mind "in the light of imminent developments in the crisis."

Mr. Fanfani, four times prime minister in the 1950s and 1960s, would still command a parliamentary majority with four parties and could form the new government Tuesday, the sources said.

His revised draft of an economic program proposes austerity measures to cut about 15,000 billion lire ($10 billion) from current account public sector borrowing next year, political sources said.

But at the same time, they said, it would spend almost the same amount in capital investment to create new jobs, which would leave the total borrowing requirement for public services at 100,000 billion lire (nearly $70 billion).

In its final form, the Fanfani plan would shift some of the tax burden from salaried employees to small businesses and the self-employed, and would also transfer state resources from health and pension programs to industrial renewal, economists said.

But the coalition's policies, showing clear signs of compromise with the union-backed Socialists, would apparently do little to cure the state's overspending.

On inflation, the program's main proposal is a two-year "truce" in wage claims, with ceilings of 13 percent and 10 percent for price increases in the next two years. This is in line with the goals of the previous government.

Queen Mother Helen Of Romania Dies at 86

Compiled by Our Staff From Dispatches

LAUSANNE, Switzerland — Former Queen Mother Helen of Romania, 86, died Sunday in her sleep at her home here, a source close to the royal family said Monday.

Her son, former King Michael of Romania, and other members of Helen's family were at her bedside, the source said.

Helen, the sister of King Paul of Greece, was married to Crown Prince Carol of the Romanian royal house of Hohenzollern-Sigmaringen in 1921. Prince Carol's romantic entanglement with Magda Lupescu, the wife of an army lieutenant, estranged him from Helen and forced him to renounce his rights to the throne in 1925 and go into exile. He divorced Helen, who had stayed in Romania doing charity work and supervising the education of their son, Michael. In 1927, on the death of Carol's father, King Ferdinand, Michael, then 6, acceded to the throne.

Carol returned to Romania in 1930 and proclaimed himself king. But a reconciliation with Helen, widely predicted in the Bucharest press, was a failure. The public ordeal of the divorce and its aftermath made Helen a figure of sympathy for Romanians in the prewar years.

In 1940, the Nazis forced King Carol to abdicate in favor of his son. Carol and Mrs. Lupescu were married in exile in 1947. He died in Estoril, Portugal, in 1953. She died there 24 years later.

During the war years in Romania, with King Michael in his early 20s, Queen Mother Helen's stature became even higher among Romanians, who credited her with taking the lead in standing up to the Nazis. The young king and his mother were so popular that after the war Romania became a Communist monarchy. It lasted until late 1947, when Michael was forced to abdicate. The royal family went into exile early the following year.

Queen Helen moved from Italy to Switzerland last year to be closer to her children. Michael, 61, married the former Princess Anne of Denmark in 1948.

■ *Other deaths:*

Barbara Deering Danielson, 93, heiress to the International Harvester fortune, Saturday in Florida following a lengthy illness.

Robert Noah Janeway, 80, a designer of automobiles and railroad cars and brother of the economist Eliot Janeway, Saturday in San Diego of a heart attack.

Dan Tobin, 72, a character actor in movies and on television, Friday in Santa Monica, California, after having been ill several months.

European Defense Group Debates Soviet Link to Pacifists

The Associated Press

PARIS — Amid allegations of Soviet support for European pacifism, the Western European Union opened a four-day assembly Monday with a debate on how disarmament movements affect security in its seven member nations.

The first discussion on pacifism and neutralism in the organization's 28-year history is based on a report presented by Pierre Lagorce, a Socialist deputy in the French National Assembly.

"The existence of a Soviet financing of certain pacifist movements was noted by certain members of the WEO Political Commission," Mr. Lagorce said in the draft report that is to be voted on Wednesday by the 89-delegate assembly.

He also pointed out that, according to Joseph Luns, the NATO secretary-general, "the Soviet Union spent $15 million in 1981 in support of pacifist campaigns in Western Europe."

The Western European Union was formed in 1954 to study defense matters in its member countries. They are Britain, France, West Germany, Belgium, the Netherlands, Italy and Luxembourg.

The organization's report on "problems for European security arising from pacifism and neutralism" has been hailed by its supporters as "what will probably be one of the fullest published studies on this question."

The report, first proposed a year ago, notes that pacifism and neutralism movements "are often very worthy, although the attainment of some of their aims might mean Europe lowering its guard at a dangerous international juncture."

The study "advocates a true disarmament policy helping to 'disarm' these movements."

Such movements are expected to spread in 1983, the report said, with the initial deployment of medium-range U.S. missiles in Europe.

■ *Civil Disobedience Voted*

The annual conference of the Campaign for Nuclear Disarmament has voted overwhelmingly for a campaign of civil disobedience in an attempt to prevent the deployment of U.S. cruise missiles in Britain, The Associated Press reported from London.

By a much closer vote, the conference also endorsed a resolution Sunday calling on the group to give higher priority to securing Britain's withdrawal from the North Atlantic Treaty Organization.

Herald INTERNATIONAL Tribune

Published With The New York Times and The Washington Post

Sharing Unemployment

Reaganomics has demonstrated once again that the economists' only proven cure for rampant inflation is disastrous unemployment. Perhaps the reason why this strong medicine is regularly prescribed and reasonably well tolerated is that the side effects are confined to a relatively small portion of the patient population. Of course, everyone who has a job deplores the plight of the unemployed. But the pain is a good deal more remote than if, rather than disemploying 10 percent of the work force, all — both high- and low-income — were called upon to forgo 10 percent of their income instead.

California, Arizona and Oregon have adopted state programs, patterned to a considerable degree on West Germany's decades-old work-sharing program, that encourage employers and workers to share the burden of unemployment. The short-time compensation programs, as they are called, allow companies facing sizable but temporary production cutbacks to reduce hours of work for all employees instead of laying off some of them entirely. Workers are then allowed to draw state unemployment benefits for the part of the week that they are unemployed.

Short-time compensation is not without potential pitfalls. Without controls, it may end up permanently boosting unemployment insurance and other costs to employers, in order to subsidize inefficiently managed or seasonal industries or to boost the incomes of people who would choose to work part-time anyway. California, however, which has promoted its program since 1978, claims that companies and workers both benefit greatly. Workers as a group gain because none of them suffers a major loss in income or in valuable health insurance and other fringe benefits. Employers gain because they avoid the cost and disruption of laying off experienced workers and then having to rehire and retrain when recovery comes.

The union movement was initially skeptical about the idea because it means that cutbacks affect more senior workers and because work-sharing seems a poor substitute for full employment or a fully compensated shorter workweek. Many union contracts, however, include work-sharing provisions, and local unions have reacted favorably to the California program. Last year the AFL-CIO worked with Rep. Patricia Schroeder in developing federal legislation encouraging state short-time compensation programs.

The new federal law — passed as part of last summer's tax bill — provides useful guidelines for states wanting to adopt programs. It also requires the Labor Department to do a thorough, independent study of how these programs affect workers, productivity and unemployment insurance costs. If the department does the careful study that is needed, it would provide the basis for deciding whether work-sharing is a good way to make sure that when unemployment is prescribed for the country, more than a few people have to swallow the medicine.

— THE WASHINGTON POST.

Caribbean Basin Blues

True to American custom, the Reagan administration came to office avowing its deep concern for neglected bemisphere relations. Just as traditionally, Air Force One flies south Tuesday for the usual grand tour. But in politics it is the follow-up that matters. If President Reagan were to wring his Caribbean Basin Initiative from a lame-duck Congress, *that* would confound tradition.

The initiative was hardly visionary. Congress has already approved its economic aid feature — $350 million to 19 countries, but nearly half for El Salvador. The program's claim to innovation was the offer to admit most Caribbean products to the United States duty-free. Getting that provision out of the House Ways and Means Committee will be the real test of administration grit.

Those trade preferences mean a lot. Take the Dominican Republic, badly hit by plummeting sugar prices and lowered U.S. import quotas. The loss of every penny on sugar means a loss of $20 million in annual earnings. The world price per pound is now a meager 7 cents. Duty-free entry for Dominican rum and other products could vitally compensate, but that will not happen if the House of Representatives fails to act or succumbs to protectionist amendments.

The Dominican Republic is among the few working democracies in the Latin Caribbean. The rule of law flourishes in a country once synonymous with bare-knuckled tyranny. Washington wants to encourage such evolution in Central America. If Congress is serious about that, here is a place to show it.

The timing of the president's journey to Latin America means that he will be away from Washington when Congress reassembles this week. But he has a chance to make his case to the public while making headlines in Brazil, Colombia, Costa Rica and Honduras. It is a good itinerary, and could give Mr. Reagan a firsthand glimpse of the economic misery among neighbors trapped between enormous debts and sinking income.

On returning, President Reagan will have about two weeks to lobby Congress to keep his Caribbean promise. It is a tight schedule, but not impossible. If he fails, cynical neighbors will remember the Caribbean "initiative" as just one more chapter in the United States's book of hemisphere hokum.

— THE NEW YORK TIMES.

Other Opinion

More Jobs for Less Pay?

If the 30 million people unemployed in the 24 largest industrial countries of the capitalist world were to march 10 abreast down Wall Street, they would still be filing past the banks and the broking houses after 24 days and nights. Told that the quickest way to cut unemployment is to cut wages, their most printable reply would probably be that capitalism is now proposing to add a fraud to its failure. They might not have noticed that Sweden's new Social Democratic government is trying to arrange a more-jobs-for-lower-real-wages swap. And that Europe's most thoughtful trade unionists, the Dutch, are thinking the same way. And that a big country with a low jobless rate, Japan, has a system of lifetime employment that is made possible only by pay packets which can in very bad years drop by 30 percent below the level of a year before. Sweden and Holland may be the first European countries to abandon the myths of the 1920s and 1930s. Japan, to its great good fortune, never suffered from them.

— The Economist (London).

On Missiles and Liquidity

The main challenge for the coming years will be the search for long-term funds. [For now,] "security plays on the American side. As long as the SS-20s are aimed at Europe and the Americans haven't put the Pershings in place, the long-term liquidity and good rates will be in the United States."

— Institutional Investor (New York), quoting Pierre Souleil, chief financial officer of the French auto manufacturer Renault.

Reagan and Nuclear Arms

When it comes to nuclear arms, no president in recent times has seemed quite as bellicose as Ronald Reagan. The idea held by some administration officials that we could actually win a nuclear war, and the president's stubborn refusal to disavow nuclear first use, make the apocalyptic scenarios of 20 years ago — remember "Dr. Stangelove" and "On the Beach"? — seem not so dated.

To help prevent accidental war, the president wants to improve the Washington-Moscow hot line and will seek more notification before nuclear missiles are tested. Both are fine ideas. The only thing more idiotic than an intentional nuclear war would be an unintentional one. But these small tokens of nuclear concern are olive branches made of plastic. They are easy and they are sensible — and should be done — but they don't get to the root of the problem. Reagan and his band of neo-brinksmen must understand: No one will win a nuclear war, and avoidance of a nuclear buildup is in the best interests of both the Soviet Union and the United States.

As Jimmy Carter noted during his recent trip to Europe, our image as the world's strongest supporter of arms control is slipping away. Until negotiators in Geneva stop comparing apples and oranges, Carter said, "rather than the variation in the size of oranges," those talks will go nowhere. Neither nation can afford to fail in Geneva.

— The Atlanta Constitution.

If the Soviets have made a serious counterproposal to the opening American offer at Geneva, is the MX then really necessary as an additional bargaining chip?

— The Globe and Mail (Toronto).

The president's public relations ploy in renaming the MX the "Peacekeeper" doesn't change the fact that it is a $30-billion disaster, especially in the closely spaced basing, or dense pack, deployment approved by the White House. The missile itself, if it works, is a deadly accurate, silo-busting weapon that could prompt the Soviets to put their missile force on hair-trigger alert. Its basing mode, on the other hand, is unlikely to resist a determined Soviet first strike. The MX, in other words, is a perfect offensive weapon but a lousy defensive weapon.

Let the president know what you think of spending $30 billion on such a lemon.

— The San Jose (California) Mercury.

NOV. 30: FROM OUR PAGES 75 AND 50 YEARS AGO

1907: Germany's Polish Problem

BERLIN — The Posen [Poznan] situation has never been more critical. The new oppressive measures introduced in the Reichstag have acted on the patriotic Poles of the eastern provinces as a red rag on a wild steer. A revolutionary spirit is being shown everywhere, and an open clash is feared. Even in the Reichstag it was hinted that new measures would result in revolt and bloodshed, but, judging from the remarks of the imperial chancellor, Germany is prepared to carry the matter to the ultimate point. "The Poles must recognize our power or be subdued by force," is the motto now. It is planned to begin proceedings at once against the ringleaders, mostly priests, who are inciting the people.

1932: Wets Group for Victory

WASHINGTON — Leaders in the wet Republican bloc in the House have swung to the support of the Democratic Party's program for unqualified repeal of the 18th amendment and early modification of the Volstead Act to legalize beer and light wines in preference to President Hoover's proposal for resubmission. Representative James M. Beck of Pennsylvania, now leader of the Republican wets in the House, stated that he will call a meeting of his group of more than 90 wet Republicans to obtain concerted action in support of the Democratic program. Democrats were assured that if they voted solidly for repeal, 75 Republican votes could be counted upon to give the resolution the required majority.

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'For Starters, Yuri, Try a Peacekeeper'

By Tom Wicker

NEW YORK — Ronald Reagan's televised announcement that he means to deploy the MX missile in the "dense pack" basing scheme seemed particularly maladroit, coming at a time when he is calling upon a new Soviet leader to take positive steps toward better Soviet-American relations.

As Mr. Reagan himself has observed, it takes two to tango. But deploying the MX does not look positive to the Soviets, as they already have made plain. And they can hardly be expected to share the Reagan administration's self-righteous view that only the Soviet Union's actions threaten peace.

From the perspective of Yuri Andropov, what is the greeting Mr. Reagan has extended to him?

First, the deployment of a powerful new weapon in a manner that many American specialists, as well as the Soviet government, believe violates the SALT accords that both countries are supposedly observing. The accords ban the development of new fixed launchers for intercontinental ballistic missiles.

Second and perhaps more important, Mr. Reagan has confronted Mr. Andropov with what the Soviet leader is bound to see as a first-strike weapon. The huge MX with its 10 warheads would have been hard enough to present as a purely deterrent missile if it had been deployed in the "race track" pattern planned by the Carter administration. Deployed in a "dense pack," the invulnerability of which is purely speculative, the Soviets will surely see it as a first-strike weapon.

Why should they not? Washington regards the big, land-based Soviet SS-18 missile, with its 10 warheads, as a first-strike weapon aimed at America. Mr. Reagan cannot argue honestly that the equivalent — or superior — MX ought to be seen in Moscow as a benign American contribution to mutual deterrence.

If both sides now believe that the other plans a first strike, that is not much contribution to better relations. Rather it heightens the possibility that one side or the other will come so strongly to that belief that it will launch its own pre-emptive strike, or adopt a launch-on-warning strategy that will increase the risk of an accidental nuclear war.

Mr. Reagan said in a statement accompanying his Nov. 22 broadcast that he "currently" had no plan to surround the MX "dense pack" with a ballistic missile defense. That is no assurance at all for the future; and development of such a defense would only lead the Soviets to do the same — increasing the "destabilizing" effect of MX deployment.

Thus, beyond the usual caution and skepticism of each of the superpowers, Mr. Andropov is likely to regard Mr. Reagan's calls for "positive" Soviet steps as cynical.

Were the president willing himself to demonstrate to a new Soviet leader a real desire for better relations, he would hardly have announced deployment of the much-delayed and much-disputed MX at this time.

It is true that Mr. Reagan had been given a congressional deadline for deciding on an MX basing plan. But that deadline was set before the death of Leonid Brezhnev; and so deft a congressional politician as Ronald Reagan would have had little difficulty in arranging for a delay during a period of waiting to see what the new Soviet leadership might have to offer. At the least, a speech on national television guaranteeing the greatest possible publicity for the MX decision could have been avoided.

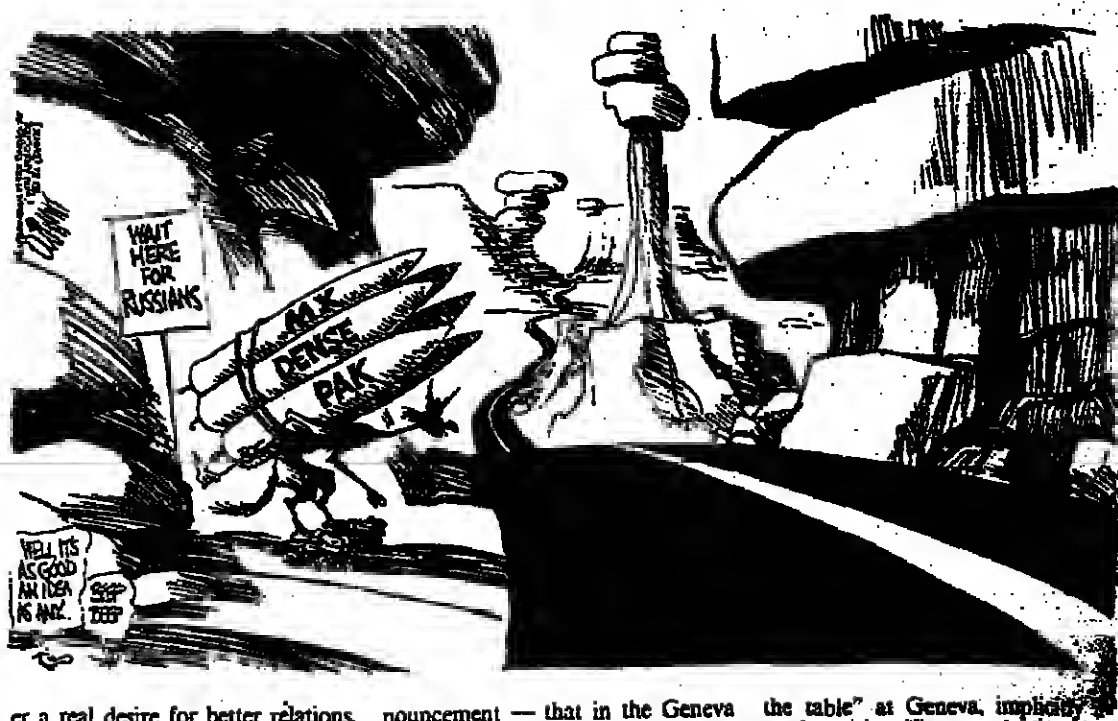
Mr. Reagan himself gave another reason to delay or downplay the announcement — that in the Geneva talks on strategic arms control, the Soviets' "opening position is a serious one" and "there's no question we're heading in the right direction."

Mr. Reagan attributed this to a new Soviet understanding that "we are now serious about our own strategic programs." Others believe the Soviets have never doubted that, but now consider themselves approximately equal in strategic arms, hence able to negotiate realistically for reductions by both sides. Either way, it is hard to see how ballyhooed deployment plans for what the Soviets see as a first-strike weapon can make them more "serious" about cutting back their own arms.

After all, the real possibility of MX deployment has long been "on the table" at Geneva, implicitly if not in writing. That was the bargaining chip. If Congress now votes the money, and development and deployment proceed, the Soviets are smart enough to know that this makes it less likely that such an expensive undertaking will be abandoned in an arms control deal.

So calling the MX the "Peacekeeper" and presenting it as a contribution to arms control cannot conceal the fact that once again the arms racers and the seekers after nuclear superiority have had the last word in the Reagan administration. Theirs will not, however, be the last word on the strategic balance — which, like the tango, takes two to bring off.

The New York Times.



A Former Secretary Criticizes Reagan's Defense Strategy

By James R. Schlesinger

The writer was secretary of defense in the Nixon and Ford administrations, during which the MX program was initiated.

WASHINGTON — The strategic rhetoric of the Reagan administration regrettably remains quite divorced from its actions. The result has been to obscure whatever rationale lies behind the strategic program.

The president lays great stress, using animated charts in blue and red, on the numerical gap that has emerged between the Soviet and American strategic forces, particularly ICBMs. Yet from the first, the administration has treated the numerical gap with great reverence as an argument but with considerable disdain as a criterion.

It decided to phase out three Titan-2 squadrons and the five remaining B-52D squadrons, and confirmed the decision to phase out 10 Polaris submarines. The outcome will be a drop in the number of U.S. strategic delivery vehicles by almost 300 — from more than 2,000 to some 1,750. Meanwhile, the Soviets retain in their strategic forces posture some 2,500 strategic delivery vehicles, not counting the Backfire bomber. In short, during President Reagan's term the numerical gap will expand to its historic maximum.

The administration's decision to proceed with a reduced MX program and with 100 B-1 bombers may persuade those who are more interested in weapons systems than in force structure that it is proceeding to restore parity or even to achieve "superiority." But these programs, although costly, are far too limited to have a major impact on the overall force balance. They will not substantiate the proclaimed strategy of the administration to "prevail" in an extended nuclear war.

Although very little is known about fratricide and the effects of dust and debris, the dense pack basing mode for the MX will increase uncertainty and may thereby strengthen deterrence. However, it is clearly not a high-confidence measure to deal with the problem of ICBM vulnerability.

The administration says it can dramatically increase silo hardness. No engineering demonstration of dense pack is feasible. One can only leave to the technical experts the question of whether such design hardness is convincing in the absence of nuclear testing.

Even if silo hardness were achieved, the Soviets have available to them measures to counter dense pack within a few years of initial deployment. Either earth-penetrators or other innovations (not yet discussed in the open literature) would permit silo destruction.

The next logical (though not inevitable) step to deal with silo vulnerability would be anti-ballistic missile deployment. That, however, would require modification, if not renunciation, of the 1972 ABM Treaty. That is an issue on which we should reflect now.

The administration's present and prospective MX difficulties are to a considerable extent its own creation. From the first it has inordinately tied the case for the MX to a survivable basing mode. Yet ICBM vulnerability is determined primarily by the trend in weapons technology and by Soviet actions.

Nonetheless, silo vulnerability has been blamed on U.S. decisions, especially on arms control. Much of the rhetoric about "closing the window of vulnerability" presupposed some easy U.S. solution to ICBM vulnerability. Thus the administration has now become entangled in its own rhetoric. For in the years ahead the window of vulnerability will gradually and inevitably open more widely.

If reducing vulnerability were the only or prime consideration, the clear answer would be to abandon the search for an invulnerable ICBM basing mode and go to sea. But the case for the MX has always rested elsewhere. ICBMs provide accuracy, controllability and selectivity not available in the submarine force. So ICBMs remain an essential ingredient in any U.S. nuclear strategy that provides extended deterrence for allies overseas.

Above all, the MX provides the possibility of offsetting the disturbing Soviet advantage in throw-weight. It maintains the pressure; if the Soviets continue the nuclear arms competition, America can prospectively match their burgeoning counterforce capabilities.

This prospect underlies the usefulness of the MX as a bargaining chip in arms negotiations. It was for this purpose that the MX was designed in 1973. The MX decision should never have been tied exclusively to the silo vulnerability issue. For it is only in the context of matching Soviet throw-weight and counterforce capabilities that an affirmative MX decision — even though the program has now been squeezed down to the point of marginality — remains fully warranted.

In designing U.S. strategic forces, rhetoric is no substitute for logic. The administration has created its own perplexities. By its rhetoric and actions, it has ensured maximum controversy with minimum effect on the force balance. It has thereby contributed further to the destruction of the national consensus that had emerged in the late 1970s on strengthening the defenses of the United States.

The Washington Post.

Aliyev, Andropov's Moslem-Wooer, Has His Work Cut Out

By Amir Taheri

PARIS — Is Yuri Andropov, the new Soviet leader, planning new initiatives to regain at least some of Moscow's lost influence in the Moslem world? Moslem diplomats and analysts, who have monitored Soviet relations with Islamic states over the years, believe this to be a top priority at the Kremlin.

They say that the man chosen by Mr. Andropov to supervise the task is Geidar-Ali Ali-Zadeh, alias Aliyev, who has just become the only new member of the Politburo and been appointed deputy prime minister.

Mr. Aliyev, born into a devout Shi'ite family in Soviet Azerbaidzhan in 1923, has since 1969 been in charge of "liaison" with parties known in a jargon inherited from the Komintern as "the parties of the East" — the Tudeh party in Iran and the Communist parties of Turkey, Iraq, Syria, Lebanon and Egypt. Kurdish and Turkic autonomist groups active in the Middle East have also been under Mr. Aliyev's supervision.

All have their headquarters in Baku, the capital of Soviet Azerbaidzhan where Mr. Aliyev has been in charge, as KGB chief and then party boss, for nearly 20 years. He has had the final world on all major policy choices and appointments within the "fraternal parties" assigned to him by the Politburo in Moscow.

A collector of oriental worry beads, Mr. Aliyev is known in Middle Eastern Marxist circles as the chief advocate of "a revolutionary alliance between fundamentalist Islam and Soviet socialism." The Communist parties he has been running have all adopted the strategy during the past decade, in sharp contrast with the policies of the two Afghan Communist parties, which have all along refused to work with what they dismiss as religious fanatics. The Afghan parties are run by the Tadzhikistan branch of the Soviet Communist Party.

Mr. Aliyev, according to a Kurdish leader who knows him well, believes that the fundamentalist movement in Moslem countries is as important for the Soviet Union as the peace movement in Western Europe.

As it happens, Leonid Brezhnev's last trip was to Baku, where, with Mr. Aliyev at his side, he devoted much of his last political speech to the future of ties with Islamic states.

But turning the tide in Moscow's favor in the Moslem world is no easy task. Mr. Brezhnev's swan song in Baku was an indirect admission of a bleak record extending from the expulsion of Soviet advisers from Egypt in 1973 to the recent war in Lebanon, via the Afghan ordeal.

As for the policy of riding the fundamentalist tiger against the West, the experience of Iranian Communists who are now being hunted down cannot be encouraging for Moscow.

Moslem politicians and opinion makers cite a number of issues that ought to be resolved before Mr. Andropov and Mr. Aliyev can hope to turn the tide. Chief among these is the Soviet occupation of Afghanistan, which, leaving aside Lebanon's special case, is the only Moslem country occupied by a foreign army. If reports that the KGB was opposed to the Kabul coup are correct, a change of heart on this issue in Moscow may not be far off, since both Mr. Andropov and Mr. Aliyev are KGB men.

Soviet support for Mengistu Haile Mariam's Marxist regime in Ethiopia is another source of Moslem discontent. Col. Mengistu is accused of massacring Moslem Eritreans with Soviet arms and with the help of Cuban military "advisers." More recently he has launched what Moslems see as a Moscow-backed plan to dismember Somalia, an Islamic state and a member of the Arab League.

Another issue concerns Soviet military bases in the South Yemeni port of Aden and the island of Socotra. South Yemen, the only Arab country with a Marxist regime, has had border clashes with Saudi Arabia.

Moscow would also have to work out a new policy on the Palestinian issue. At the moment it is content with reacting to American, Israeli and Arab initiatives. With the PLO still reeling from the Beirut shock and with Syria drawing steadily closer to the West, the new Soviet leaders would have to look for other friends besides Libya's Moamer Qadhafi.

The problems of Soviet Moslems, estimated to number more than 50 million, are seldom raised at official level, but cannot be ignored, due to the importance attached to them by Islamic public opinion. With the influence of religious organizations constantly on the rise, demands for greater freedom for "our brethren in the U.S.S.R." are a problem.

The most frequently made demand is for Soviet Moslems to be allowed to travel to Islamic holy places and to receive Moslem visitors in return. Religious organizations are also pressing for Soviet Moslems to be allowed to study theology at such major centers as Cairo, Qom in Iran, Najaf in Iraq and Lahore in Pakistan. In Iran alone the Foundation for the Dispossessed is offering up to 1,000 scholarships to students from the Soviet Union, but has received no applications.

Other demands include establishment of Koranic schools, reopening of mosques and Moslem holy places, allocation of television and radio time to religious programs and an end to what is termed "Soviet discrimination against true believers" in obtaining jobs and promotions.

Mr. Aliyev claims that Islam and Leninism share "the same concern for justice and equality." In this he continues the tradition of the Mussawat (Equality) Party of Azerbaidzhan, which in the crucial 1920s paved the way for Bolshevik domination and the end of independence dreams for the Moslem peoples of the former czarist empire.

Bringing the theory up to date, he maintains that the fundamentalists must be used to mobilize the masses in the name of religion in a holy war against "Western imperialism." The trouble is that the fundamentalist sword can cut both ways, as shown in Afghanistan. The Soviet Union's Islamic underbelly is vulnerable in this respect.

Some Soviet theorists know this, although their voices may now carry less weight as Mr. Aliyev moves up the ladder. Nihat Radzhabov, an Uzbek writer, has warned against "an opportunistic alliance with reactionary fanatics." This echoes the views of Afghan Communists and their mentors in Tadzhikistan.

In the Kirgiz Republic, where Moslems are in a majority, a recent debate was devoted to ways of fighting "those rogues who, hiding under religious cloak, try to lead the working masses away from Socialism."

International Herald Tribune.

Iraq Is Rethinking Its Friendships

By David Lamb

BAGHDAD — Iraq used to be such a wild-eyed radical in the Arab world that even the Arabs were leery of it. Terrorists received a red-carpet welcome in Baghdad and you couldn't pick up a local newspaper without reading about the satanic policies of the United States or the need to destroy Israel.

Iraq was one of the Soviet Union's earliest partners in the Middle East and a leader in the movement to expel Egypt from the Arab League after it made peace with Israel. For years it promoted instability in the Gulf states, even trying to invade Kuwait in the mid-1970s. Now, because of its two-year-old war with Iran, Iraq has been forced to turn pragmatic.

Relations with Moscow are correct but chilly, anti-American rhetoric has virtually disappeared, Egypt has become an ally and has a newly established interest section in the Indian Embassy, and the invective that used to be hurled at Israel is now primarily directed at Iran and its main supporters, Syria and Libya.

The motive for the change is straightforward. When Iraq needed help in its war, the countries that came to President Saddam Hussein's assistance with money, arms and verbal support were all pro-Western moderates — Saudi Arabia, Sudan, Egypt, Jordan, North Yemen and the Gulf states. As it comes under the influence of the moderates, Iraq has found itself being subtly pushed away from the Soviet Union and the radical Arabs and toward the West.

About 2,000 Soviets and Eastern Europeans work here. Although Moscow is Iraq's largest arms supplier, their influence seems to be minimal.

Iraq's 1972 treaty of friendship and cooperation with the Soviet Union began coming unglued in 1978 when Iraq purged its army of Communists, driving the country's estimated 1,700 Communists underground, where they remain today. Relations were chilled further when Iraq ordered Mirage jet fighters from France in 1979 (it also buys arms from Spain, West Germany and Egypt) and when Moscow began arming Iran in 1981.

Washington has not had full diplomatic relations since 1967 but has 15 official Americans in a U.S. interest section. Their access to Iraqi officials is better than that of many Communist diplomats. About 200 American businessmen live in Baghdad. U.S. exports to Iraq, mainly agricultural, have reached $1 billion a year.

The United States says it is willing to re-establish full relations and exchange ambassadors without precondition. Mr. Hussein recently told 18 visiting U.S. journalists, whose presence was noteworthy in itself, that he would restore ties with the United States "without hesitation" were it not for his belief that Washington has the capability to stop the Iran-Iraq war but has not exercised it.

The United States has remained officially neutral, but U.S. diplomats in Baghdad are quick to point out to Iraqi officials that the Reagan administration, fearing the spread of Islamic extremism from Iran, has done nothing to impede the Iraqi military effort. It has not, for instance, tried to discourage France and Egypt from providing Iraq with weapons, or Jordan from sending a symbolic brigade, or Saudi Arabia and the Gulf states from giving Iraq an estimated $30 billion in the last two years.

Unlike many wars fought in the Third World, the Iran-Iraq conflict does not appear to be a surrogate war waged in behalf of the superpowers. True, the Soviet Union could cut off arms supplies to both sides and the war would probably wither away. But neither Moscow nor Washington has substantial influence over decisious made in Baghdad or Tehran.

The belief in Western circles in Baghdad is that Moscow would be best served by an unstable Iran and a subservient Iraq. President Hussein, though, appears to be striking out on a nonaligned course, seeking genuine independence from all superpowers.

He criticized the Soviet invasion of Afghanistan, backed the Arabs' Middle East peace plan announced at Fez, Morocco, and has become a bitter critic of the so-called Steadfastness Front of Syria, Libya, Algeria and South Yemen, which calls for destruction of Israel. His opposition is based more on the front's support of Iran than on his position on Israel.

The question that political analysts are pondering in Baghdad now is whether Iraq will pursue its alliance with the moderate Arab states once the war ends or will slip back into the radical sphere. Most believe that if Mr. Hussein stays in power — and the outcome of the war could determine whether he does — Iraq will continue on its present course.

Los Angeles Times.

LETTERS TO THE EDITOR

For Good Measure

The author interviewed in "Measuring the Quality of Life" *(IHT, Nov. 26)* insists on the importance of travel for understanding his conclusions.

I find it hilarious to learn that France has a lower index than, say, Poland. May I suggest that a new factor be introduced: asking for permission to go to the toilet on board a LOT domestic flight between Wroclaw and Warsaw while the supposed guard is preparing to hijack the aircraft to West Berlin.

ANDREW MACDONALD.
Paris.

A Literary Joust

Regarding the book review of "Deadeye Dick" (IHT, Oct. 26):

"As for literary criticism in general: I have long felt that any reviewer who expresses rage and loathing for a novel or a play or a poem is preposterous. He or she is like a person who has put on full armor and attacked a hot fudge sundae or a banana split."

— Kurt Vonnegut in "Palm Sunday."

Reviewer Jonathan Yardley brandishes his journalistic sword of omniscience against the spectrum of Vonnegut fans, from semi-literate TV junkies to the literati who "have permitted their political sentiments to cloud their literary judgment." As a computer executive with a degree in English Lit who does not watch television, I suppose I am closer to the latter group, although my unsentimental politics are virtually the opposite of those Mr. Yardley professes to share with Mr. Vonnegut.

Therefore, neither television nor politics can account for my appreciation of Mr. Vonnegut's ability to quintessentially describe human experience. His innovative alchemy usually (nobody is perfect) can make the scales drop from my eyes, whereas our erring knight remains covered in them from head to clanking foot.

BEATRICE CURTIS.
Avenches, Switzerland.

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هكذا من الأصل

International Herald Tribune

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TUESDAY, NOVEMBER 30, 1982

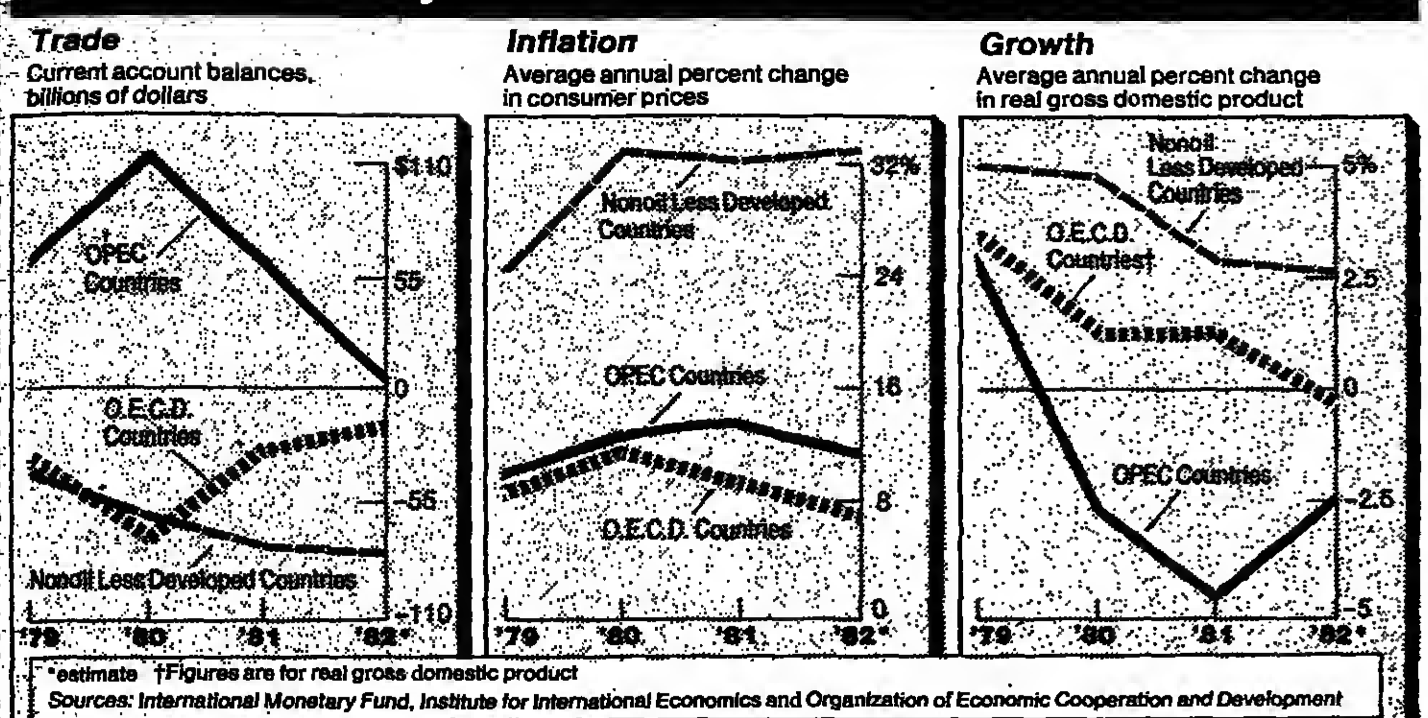
EUROMARKETS

A SPECIAL REPORT

PART II

Part I appeared yesterday.

The World Economy



*estimate †Figures are for real gross domestic product

Sources: International Monetary Fund, Institute for International Economics and Organization of Economic Cooperation and Development

The New York Times

Global Economic Strains Test East, West

Persistent Downturn Goes Beyond Debate Over Free Trade or Protectionism

By Karen W. Arenson

New York Times Service

NEW YORK — Not since the Great Depression of 50 years ago have the nations of the world faced such a bewildering multitude of economic and financial problems, from high unemployment and falling production to sagging trade and huge foreign debts.

"There is hardly a place in the world where countries are not in economic difficulty," says George W. Ball, who was undersecretary of state in the Kennedy and Johnson administrations and is now a consultant to Lehman Brothers Kuhn Loeb. "The Soviet Union and Communist countries are in desperate trouble, and in the West it is hard to find a bright spot."

Robert D. Hormats, who stepped down as Assistant Secretary of State for Economic and Business Affairs in August to become director of Goldman, Sachs International, calls today's array of problems "the greatest test to the prosperity of the postwar period that the world has faced."

To be sure, for most people, today's economic and financial problems are not nearly as devastating as those of the Great Depression, when the United States' gross national product plunged 30 percent in real terms between 1929 and 1933, a quarter of the labor force was out of work and prices collapsed. For the developed economies of the world, government social programs and other safety nets have worked well in limiting the effects of the downturn.

Still, rising unemployment, startling numbers of bankruptcies and a persisting slump in output have raised questions as to whether things could get much worse.

In Geneva, *ministers from the 88 nations of* the General Agreement on Tariffs and Trade are gathered in an attempt to reverse the accelerating decline in world trade. Advocates of free trade hope the GATT talks, which began last Wednesday, will halt the formation of new trade barriers and break down some that already exist. But this is just one aspect of the world's economic problems.

In fact, the job of getting one economy like the United States' back on track is difficult enough. But the challenge of orchestrating the policies of many countries with diverse interests is monumental. Meanwhile, some analysts worry that despite everyone's best efforts to keep the problems under control they could get out of hand in unexpected ways, touching off some sort of economic or financial crisis.

"So long as we can settle the problems one at a time, we'll be all right," says Charles P. Kindleberger, an international economist and professor emeritus at the Massachusetts Institute of Technology.

"But what worries me is that they are beginning to come a little closer together now. It is not invevitable that we will end up with a panic or crash," he says, "but the financial world is now in distress, and we have to be wary about the possiblity."

Elements of the distress are clear.

• **Recession.** The United States, West Germany, Japan and virtually all the world's major industrialized countries are in an economic downturn or stagnation that has run deeper and longer than anyone anticipated. There are still no signs of recovery, and some worry that the no-growth situation will drag on.

"In previous recessions, some countries were trying to reflate, while others were beginning to deflate, and that kept things going," noted Richard O'Brien, senior economist for the American Express International Banking Corporation in London. "What is unusual this time is that everyone is in recession at once."

• **Structural adjustment.** Long after the recession has faded into a bad dream, problems of productivity and strong growth are expected to plague the United States and other developed countries, at a time when they must cope with increased competition from newly industrialized countries with more modern technology and cheaper labor.

A glut of capacity in steel and other basic industries worldwide could take years to work off, crimping the opportunities for healthy growth in both developed and developing countries.

"In the decade of the 80s, structural problems predominate," said Robert V. Roosa, a partner at the investment banking firm of Brown Brothers Harriman.

• **Protectionism.** World trade, which had been the engine of much of the world's recent growth, has declined for the first time in the postwar period, both because of the weakening of domestic economies and the creation of new protectionist trade barriers. Without a pronounced turnaround, these trade barriers could multiply, weakening the world economy still further.

"All of these economic problems will increase the pressure for protectionism," predicted John G. Heimann, co-chairman of Warburg Paribas Becker-A. G. Becker and a former controller of the currency. "Protectionism can be the undoing of the international finance and economic system — it could be a repeat of the 1930s. Whether the scenario can be changed is the great debate now."

• **Financial strains.** The world's major banks have lent more than $500 billion to developing countries and Communist nations, many of which now face serious economic and financial problems because low commodity prices have slashed export earnings.

As increasing numbers of these countries fall behind on their debt payments, ways must be found to renegotiate the loans and to return these countries to a more stable footing.

"This is the first period since World War II that the creditor nations of the world have faced a major debt-servicing problem in more than one country at a time," Mr. Roosa observed.

What makes these problems even more troublesome is that they are so closely bound. Thus, there is apparently little to be gained

(Continued on Page 10S)

U.S. Seeks to Close or Limit Tax Haven For Borrowers in Netherlands Antilles

By John M. Berry

WASHINGTON — The U.S. Treasury is trying to close or greatly limit use of the tax haven window in the Netherlands Antilles through which flows most of the Eurobond borrowing by major American corporations.

Reluctant Netherland Antilles representatives were in Washington recently for a round of meetings on whether to change the tax treaty that has enabled the island country to become a way station in transactions involving tens of billions of dollars in the past few years.

Treasury officials said the negotiations have reached a "delicate stage." Earlier this year when authorities in the British Virgin Islands declined to alter their treaty, which has similar provisions but was used much less frequently to escape U.S. taxes, the United States unilaterally canceled the treaty.

The treaty provides that investors in the Netherlands Antilles — including Antillean corporations, regardless of who owns or controls them — can make passive investments in the United States without being subject to a 30-percent tax that otherwise would be due on the interest, dividends or royalties they receive.

Many major U.S. corporations have set up subsidiaries in the Netherlands Antilles for the purpose of borrowing in Euromarkets and relending the proceeds to their American parents. The companies are lobbying hard to persuade Treasury officials to leave this borrowing window open, arguing that if it is closed their borrowing costs will rise.

The Netherlands Antilles wants no change because the legal fees and a small income tax on all the local corporations set up to channel funds through the islands provide a significant source of income for private individuals and the government there.

Ironically, the Treasury is on record favoring elimination of the 30-percent tax the island's setup is used to avoid. The Carter administration first proposed dropping the tax at a time the U.S. dollar was weak and the current account deeply in deficit. Dropping the tax would attract more foreign investment in the United States and prop up the dollar, it was thought.

Now that the dollar is much stronger, the Treasury would still like to get rid of the tax to remove an impediment to the free flow of capital. However, having just persuaded Congress to impose a withholding requirement on payment of interest and dividends to U.S. residents, the Treasury is laying low on the other proposal.

The two cases are different, however. The new withholding is intended just to collect taxes that have been and will remain in effect, whereas the other proposal would eliminate a tax on foreign investors that happens to be collected only through a withholding mechanism. But the Treasury does not intend to try to sell that distinction at least until after the new domestic withholding is fully in effect, congressional sources said.

The Treasury is intent on closing the Netherlands Antilles window, even though it would like to drop the 30-percent tax, for several reasons.

One is the sheer artificiality of it all. Why, ask Treasury officials, should a U.S. corporation wanting to borrow money in Europe have an advantage by going through a small nation in the Caribbean to do it?

A second is the secrecy that Netherlands Antilles law offers investors. Corporations there issue stock in bearer form so that it is difficult or impossible to trace actual beneficial ownership. The U.S. Internal Revenue Service believes some U.S. citizens are using Netherland Antilles corporations as investment vehicles to escape U.S. taxes.

Sources familiar with the treaty negotiations said the U.S. is seeking a modification that would look behind the Netherland Antilles corporations, which are regarded as citizens of that country, to who actually owns them. Then only persons who are residents or citizens of the Netherlands Antilles or the United States would benefit from the treaty's exemption from the 30-percent tax.

The bilateral treaty between the United States and the Netherlands itself has a similar provision and the Treasury is also seeking changes in that treaty. Those negotiations, which have been under way for about a year, are not close to a resolution, Treasury officials said.

Escape from the 30-percent tax is critical to Eurobonds, whose proceeds end up in the United States because there must be an international secondary market for such bonds. The bond indentures typically have a provision requiring that the borrower pay any tax that is due on the interest payments at the source. If a U.S. corporation had to pay the 30-percent tax on behalf of an owner of a Eurobond, it would increase its borrowing cost by 43 percent.

The tax treaties between the United States and Britain and West Germany also provide for exemptions from the 30-percent tax. In some other treaties the tax is set at some lower level, often 5 percent or 10 percent, which is the case with France.

The critical difference with the Netherlands Antilles is that that country also levies a very small tax on corporate profits. "The interest income goes out of here tax free, and the tax in the Netherlands Antilles is relatively low, so it is going out of there essentially tax free, too," a Treasury official said.

Some investors from third countries are moving their funds through Dutch corporations to take advantage of the treaty with that country. But there the corporate tax is higher, the official noted, as there is a separate levy imposed when a corporation is created according to how large its capital base is.

According to a U.S. tax expert the Netherlands is also an attractive base for investments in the United States because it does not tax income earned abroad by Dutch companies. The United States, on the other hand, taxes the income of its citizens or corporations earned anywhere in the world — with some limited exemptions for earned income — while allowing a credit for taxes paid in the country that is the source of the income.

Record Year in Eurobond Volume Increases Market Size, Importance

By Carl Gewirtz

PARIS — In its pell-mell rush to a record volume this year — at least one-third greater than last year's record and easily double the total of 1980 — the Eurobond market significantly increased in size and importance relative to all other, domestic, bond markets.

The largest of these is the domestic U.S. market where, excluding the mammoth U.S. government and municipal markets, about $28 billion worth of new issues were floated in the first nine months of the year. By contrast, U.S. dollar-denominated bonds launched in the Euromarket in the same period totaled $34 billion, the first time this figure has topped New York's. By comparison, in 1978 the dollar component of the Eurobond market was a mere one-third of the size of the nongovernment U.S. bond market.

According to Mathew van den Adel of Rabobank Nederland, the Eurobond market has this year "proved to be not a substitute for New York, but rather an independent vehicle for international capital issues." The explanation lies in the overwhelming popularity of the dollar as an investment vehicle. Of the $44.1 billion worth of Eurobonds floated during the first 10 months of this year, 87.6 percent has been denominated in dollars, according to data compiled by Morgan Guaranty Trust.

That tops the 85 percent dollar share for all of last year and is second only to the 88.9 percent registered in 1967. In the interim, the dollar sector had fallen to a low of 43.6 percent of total volume in 1975. U.S. companies accounted for 27 percent of total new issues in the first 10 months of this year, the highest since the 31.4 percent registered in 1972. Their $12 billion worth of Eurobonds this year represents about one-third of total U.S. corporate bond market borrowing, up from 17 percent for all of last year.

The popularity of the dollar and the premium investors placed on high quality U.S. corporate paper enabled many American companies to issue Eurobonds at rates significantly below what they would have had to pay to borrow at home. Indeed, often during the year, household names such as Coca-Cola or American Telephone & Telegraph were able to launch Eurobonds at terms that were more favorable than even the U.S. government could command in New York.

Bankers say the shift of U.S. companies to the Eurobond market relieved a tremendous pressure on the New York market, and that if the demand had been confined to New York, bond market interest rates there would never have declined. As it was, the U.S. Treasury could raise its $110 billion in new cash this year without squeezing out other borrowers or pushing up rates. Corporate coupon levels, in fact, declined by 3 percentage points during the year.

The other remarkable feature of the Eurobond market this year was the variety of instruments offered. Many a banker admits they were gimmicks, but there is no denying, as evidenced by the volume, that investors found them appealing. The innovations had a common theme: for borrowers, a cheaper cost of money than they otherwise would have had to pay; for investors, more bang for their bucks.

The hang in bankers' lexicon is "leverage" — stretching the purchasing power of each dollar invested. The most extreme example of this is the zero-coupon bond, bearing no interest but sold at a tremendous discount from face value, say $255 for a $1,000 bond. In effect, zeroes enabled investors to utilize immediately the full purchasing power of the interest income they would have earned over the next 10 years had they paid $1,000 to buy a bond bearing an annual coupon of 14½ percent. The redemption of the zero at full face value at final maturity, equivalent to a guaranteed capital gain, can be translated into the equivalent of an annual yield.

U.S. companies, the biggest issuers of such paper, reaped big tax savings by issuing zeroes but the U.S. authorities plugged that loophole and zeroes stopped coming to the market. In all, zeroes bearing a face amount of $8.4 billion were sold this year, Salomon Brothers reports. The amount actually raised in the market, and the amount calculated in the year's overall volume, totaled only $2.1 billion.

Warrants were another variation on the theme. In return for buying a bond bearing a coupon that was below the normal market rate, investors were offered a warrant, or the right to buy another bond. Sometimes this was the right to buy more of the same issue, sometimes a completely different bond with a different coupon and different maturity, and sometimes it was a warrant to buy a zero-coupon bond.

By giving up some immediate income in accepting a lower coupon, investors were offered a gamble to make a huge capital gain. If interest rates fell, as they did, the value of the warrant would soar as the value of its underlying security also increased. In fact, the price of many warrants more than doubled. If all the warrants issued are exercised, Salomon Brothers reports, $2.9 billion worth of bonds will have been sold.

Zeroes and warrants had one other important advantage to investors — protection from early redemption. Virtually all of the full-coupon bonds bearing what now looks like astronomic fixed annual interest rates are callable well before their final maturity. And with interest rates falling and likely to continue to do so, borrowers will have every incentive to call such bonds and raise new money much more cheaply. The penalty a borrower has to pay investors for doing this is minuscule, between one percent and three percent of the face value of the bond.

Zeroes are effectively noncallable as issuers have no incentive to pay the full face value of the bond before the fixed maturity date. And while the life of warrants themselves is short, the securities they can purchase are almost all noncallable (provided more than 10 million of the warrants are actually exercised). Warrants have proved to be very attractive to investors. So attractive are the terms of the underlying securities that some issuers are currently calculating the mathematics of a tender offer: how high a premium price would they have to offer to buy their warrants back, and would the cost then of raising new money result in savings large enough to justify making the tender offer.

Another variation, offering much less lever-

(Continued on Page 10S)

EUROMARKETS

OPEC and Western Finance Increasingly Interlinked, Discounting Fears of Crash

By Leslie de Quillacq

PARIS — Paul Erdman's 1977 best seller, the "Crash of '79," leaps to mind when the subject of the present withdrawal of OPEC deposits from the international banking system comes up. At the beginning of that book the Saudis use their bank deposits in an international blackmail scheme. By the end the world is in financial — and radioactive — ruin.

Erdman's point was the vulnerability of the international banking system, the "Eurocurrency market," to the Arab-dominated Organization of Petroleum Exporting Countries. This seems to have sunk into the minds of the layman, and, in fact, if the Arabs did, in one fell swoop, withdraw their deposits from the market — an almost impossible situation since funds will only be rechanneled — the market probably would be temporarily disturbed.

Total deposits in the market at the end of June totaled about $1.542 trillion, according to the Bank for International Settlements in Basel, of which OPEC deposits accounted for about $145 billion, or about 9 percent, while the Arab oil exporters alone accounted for about $119.2 billion, or about 8 percent. The four richest Arab members, the so-called "low absorbers" — Saudi Arabia, Kuwait, Qatar and the United Arab Emirates — accounted for about $77.7 billion in deposits, or about 5 percent of the total.

Outstanding loans from the market to the OPEC countries as a whole total about $74.9 billion, BIS said, or about 4.8 percent of the total loans made. The Arab members of OPEC by themselves have borrowed about $35.4 billion, meaning they account for only about 2.3 percent of the loans made by the market and the "low absorbers" account for only about $12.5 billion in loans, or only about 0.8 percent of the loans made by the market. In other words, the net addition of the four richest OPEC members to the system — their deposits minus their loans — is $65.2 billion.

Erdman's doomsday scenario is based on a sudden and huge Arab withdrawal. The drawing down of OPEC and Arab-OPEC deposits that is taking place now is being done gradually and at a time when deposits from the industrialized world, especially the United States, are increasing more than enough to offset the withdrawals.

Most international banking analysts said the contraction taking place in international lending now has nothing to do with OPEC withdrawals but is, in fact, due to several other factors, including loan repayment problems in Latin American and Eastern Europe and the spectacular failure of the Italian bank Banco Ambrosiano.

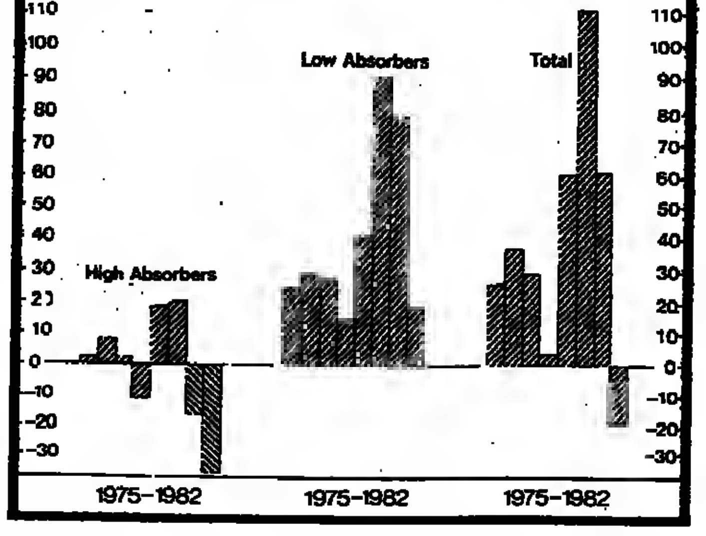
There are several reasons for OPEC withdrawals. One of the main ones, of course, is the oil glut. Skyrocketing oil prices after the Iranian revolution finally brought about oil conservatioo measures in the industrialized world, which OPEC said it wanted but which some OPEC members now must regret. According to the International Energy Agency, the industrialized world today, in the third quarter of 1982, uses 33 million barrels a day, compared to a consumption of 42.7 million barrels a day in 1979,80.

On top of this, new non-OPEC supplies of oil have been developed so that members of the organization are the suppliers of last resort. Imports of OPEC crude by the European Community fell 20 percent in the first half of 1982 compared to the first half of 1981 while imports of North Sea oil went up 24 percent in West Germany, 100 percent in the Netherlands and 121 percent in France. Demand for OPEC oil in general fell from a high of about 31.6 million barrels a day in 1979, to 27.6 million in 1980 to 23.5 million in 1981.

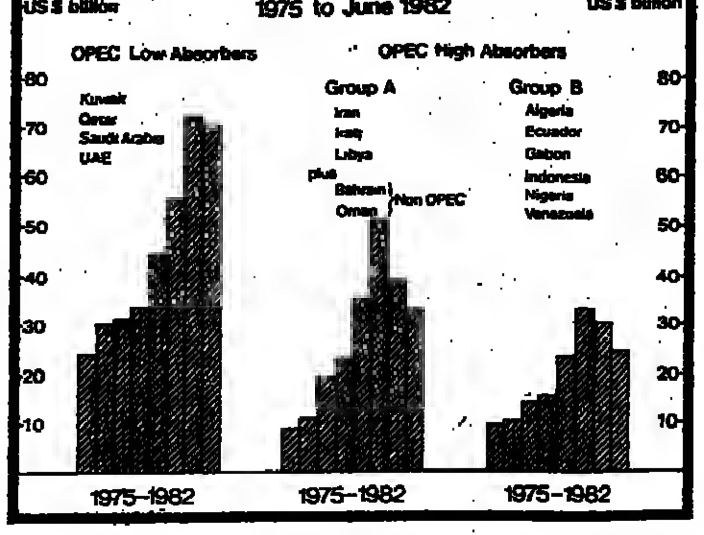
However, several OPEC countries, desperately in need of funds, have been trying to raise their OPEC-alloted production rates through discounts on their official prices. This consequently is undermining the benchmark price and some analysts in the oil industry expect that the real price may fall as low as $24 soon.

Saudi Arabia and Kuwait have taken the brunt of the production cuts in an effort to maintain the benchmark but there are signs that even they are feeling the pinch. They are especially upset by the price discounts given by the North Africans since they say this is putting their crude oil at an even greater disadvantage on the marketplace and thus forcing them to cut their productioo even lower than they agreed.

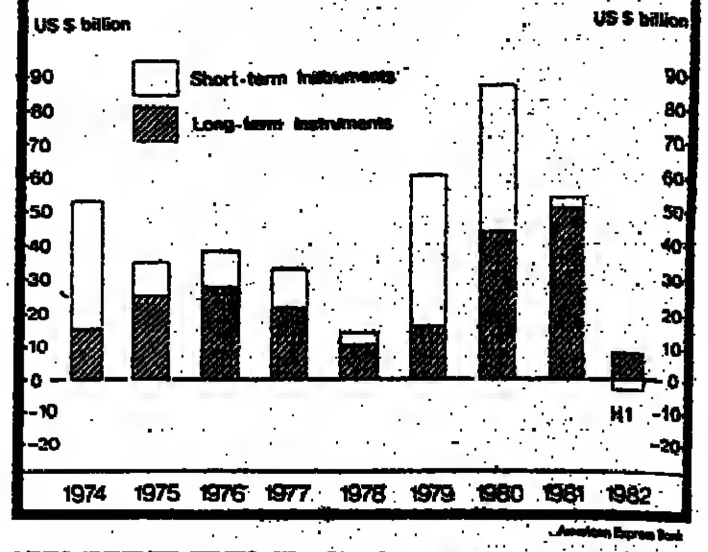
Saudi production, which went as high as 10.2 million barrels a day in 1980, may now be as low as 5.5 million — 2 million less their their OPEC-alloted rate. This means there may be no budget surplus this year for investment by the Saudi Arabian Monetary Authority, and some observers believe that the Saudis may even have to tap their savings, which they did twice in 1978-79.



OPEC CURRENT ACOUNT: The deterioration in OPEC'S current account in 1982 compared to 1981 is now likely to be around $80 million, the largest single annual change in the group's history. The bulk of the change has fallen oo the so-called low absorbers.



OPEC DEPOSITS: The OPEC deficit has led to declines in OPEC deposits with the Euromarket. For the high absorbers this had already started in 1981. So far the declines are small compared with the rises in previous years.



OPEC INVESTMENTS: The OPEC deficit is also reflected in the level of new investments: short term instruments have declined, while the increase in long term instruments has been the smallest on record.

Kuwaiti production, which averaged 2.5 million barrels a day in 1979, was given a ceiling of 650,000 barrels a day at the March OPEC meeting but reportedly is producing less. Some of that production allegedly is going to Iraq for the war effort, probably at a significant discount.

Consequently Kuwaiti oil revenues this year may reach $10 billion, compared to $20.8 billion in 1980 and to $15.5 billion last year. Kuwaiti Finance Minister Abdel-Latif al-Hamad announced a few months ago that Kuwait had experienced a budget deficit of $1.37 billion in fiscal year 1981-82 ending June 30 and is expecting a similar deficit this year. Since budget outlays by law include 10 percent of expected revenues for the Fund for Future Generations — an investment fund — and since budget revenue does oot include Kuwait's already handsome income on its present investments — estimated this year at about $8 billion — the deficit is not what is commonly understood as one. Yet, for Kuwait this means it must spend some of its investment income.

Abu Dhabi, the main oil and revenue producer of the United Arab Emirates, has officially estimated its budget deficit for the first six months of 1982 at $1.09 billion. Libya, which was expected to become a surplus state, has been losing out in competition to North Sea oil and has been giving discounts in an effort to raise production and revenues. It has been forced to reschedule some of its debt, and its reserves, estimated at about $13 billion a year ago, are now down to an estimated $4 billion. A Libyan banker recently said the benchmark price for OPEC oil might slip to $27 a barrel.

Added to the financial difficulties caused by falling oil production, Iraq's war with Iran has been draining the revenues of the "low-absorbers" in OPEC, especially Saudi Arabia and Kuwait. The Gulf states have reportedly given Iraq, since the beginning of the war in 1980, about $20 billion in soft loans, reportedly interest-free, and about $5 billion in goods and services.

The loans were to bolster Iraqi President Saddam Hussein by maintaining the country's huge development program in spite of the war, the cost of which has been estimated at $1 billion a month. But there are signs that Saddam, whose country's reserves have gone from about $30 billion at the beginning of the war to $15.9 billion by the end of 1981, has finally worn out his financial welcome with his neighbors. Iraq is expected soon to come to the Euromarket for a $500 million loan.

A future drain on Arab funds could come from the Iranians, who have demanded more than $150 billion in war reparations as part of any peace settlement. The Gulf countries already expect that they will probably have to foot the bill to rebuild both Iran and Iraq and there are reports that some of them are ready to start negotiating with the Iranians over the amount.

Another aggravating financial factor in the Gulf, whose seriousness cannot be gauged yet, is the crash of the unofficial Kuwaiti stock market, the Souk al-Manakh. The market was sustained by a system of postdated checks, which sellers thco traded to buy even more stock. After spectacular growth it ground to a halt last April. Then some of the postdated checks started bouncing. At least one large dealer reportedly fled the country.

The government, in an effort to control the situation, set up a clearing house for registration of the postdated checks. By the registration deadline, October 20, 1982, $92 billion in such checks had been registered, and about $64 billion of that, the Kuwaiti press said, signed by eight dealers.

Already a $1.7-billion government fund has been set up to reimburse small investors and the government has promised to back institutions incorporated under Kuwaiti law that may find themselves involved in difficulties because of the crash. Since there are rumors that some big Kuwaiti financial institutions were involved, either through making loans to participants in the market or through buying shares themselves, such support might call for a significant expenditure of government funds.

The government has made it quite clear that it will not bail out big debtors and already many people in Kuwait expect that some immensely wealthy Kuwaitis will have to liquidate assets to avoid going to jail. No one knows how much money this might involve but it could affect private Kuwaiti investments abroad.

Added to all of the financial problems that are drawing down OPEC and Arab Euromarket deposits is the fact that the oil-exporting countries seem to have a tendency to put an increasingly smaller percent of their surpluses in such deposits. In 1974, according to the Bank of England, over 50 percent of the identified surplus was placed with banks. This stabilized at about 30 percent in the next four years but zoomed to 70 percent in 1979 when the oil exporters were inundated with revenue. In 1981 it fell to 7 percent.

Paul Erdman's book was set in a world where OPEC oil prices were skyrocketing and OPEC surpluses in their balance of payments vis-á-vis other countries were making quantum leaps. Obviously, OPEC balance of payments surpluses are going down, not up. In fact this year may see a deficit. The Bank of England in its September quarterly bulletin said the oil-exporting countries' current-account surplus for the first quarter of 1982 was $5 billion. However, for the second quarter, the bank predicted a deficit of $3 billion. This is quite a slide from the surplus of $67 billion the Bank of England reported for 1981 and the surplus of $112 reported for 1980.

Predictions of the 1982 balance of payments account vary widely, however: io March Morgan Guaranty predicted an OPEC deficit of $10 billion; in April Chase Manhattan predicted a range of from a $15 billion OPEC deficit to a $3 billion surplus; in May First Chicago predicted an OPEC deficit of $15 billion. The OPEC Secretariat has predicted a deficit of $9 million, compared to a surplus of $54 in 1981. According to the OPEC administrative organization, the brunt of the swing will be borne by the "low absorbers."

The so-called "high absorbers" within OPEC — everyone but Saudi Arabia, Kuwait, Qatar and the United Arab Emirates — already were $16 billion in deficit in 1981, according to figures from the Organization for Economic Cooperation and Development. This deficit probably will grow to $26 billion this year, OECD predicted. The "low absorbers" are expected to be $29 billion in surplus this year, OECD said, but this is significantly lower than last year's $79 billion.

These figures for the Middle East oil, however, may contain a lot of inaccuracies, the Bank of England has ooted. Under normal circumstances, a surplus in balance of payments should be balanced by a deficit elsewhere in the world. Thus, if the Arab oil exporters' balance of payments surpluses start to fall, this should be balanced by a lessening or vanishing deficit somewhere else. However, the figures are not coming out even. The Bank of England attributed this to "systematic underrecording of investment income by financial asset holders, especially in the oil exporting countries."

Nevertheless, despite inaccuracies, the figures do indicate a trend of diminishing or vanishing surplus. This is naturally reflected in the drawing down of the deposits of the OPEC countries in the international banking system. According to BIS, OPEC withdrew about $6.8 billion in deposits from the Euromarket in the second quarter of 1982, almost all of it at the expense of European banks. In fact, European banks lost a total of $11.4 billion in deposits in the second quarter, apparently half of them real withdrawals but the other half due to the transfer by Venezuelans of $5 billion in London deposits to New York after the Falkland Islands crisis.

The Bank for International Settlement said the second-quarter decline "represented an abrupt increase in relation to the first quarter," when they had declined by only $500 million "but continued the series of withdrawals" that started in mid-1981. In the first quarter of 1981 balances went up $5 billion and in the second quarter they went up $1.7 billion. Thereafter they started to go down: in the third quarter by $900 million and in the fourth quarter by $2.5 billion.

On top of this, OPEC countries reappeared as borrowers in the Euro medium-term credit market. Their borrowings had been steadily declining in recent years until in 1981, according to statistics by the Organization for Economic Cooperatioo and Development, when new borrowings were about $5.7 billion, significantly smaller than the $8.8-billion leap two years earlier. In the first three quarters of 1982 OPEC borrowed $6 billion, according to OECD, and more is expected to come.

Statistics from BIS show the same trend, with OPEC borrowings in the Euromarket in first quarter of 1981 declining by $2.4 billion. Thereafter they increased: $1.4 billion in the second quarter, $2.4 billion in the third quarter, $2.8 billion in the fourth quarter, $1.6 billion in the first quarter of 1982 and $3.1 billion in the second quarter of 1982. The net outflow of funds from the market to OPEC in the second quarter of this year, loans plus withdrawal of deposits, totaled $9.9 billion.

Surprisingly, Saudi Arabia and Kuwait are among the big borrowers. Saudi's total borrowings in 1981 were $427 million, according to the OECD, while the total this year by the end of September was $1.2 billion. The Saudis reportedly prefer to borrow rather than to resort to their foreign-exchange reserves. To them the spreads are quite low and a lot of their borrowing is in riyals and Kuwaiti dinars, which are considered Eurocurrencies.

Borrowings by Kuwait, mainly by investment institutions, totaled $232 million in 1981 but already were up to $590 million by the end of September this year, according to the OECD. These borrowings may be linked to activities in the Souk al-Manakh.

While the Arab oil exporters had been important suppliers of the liquidity of the Eurocurrency market, international bankers are unconcerned to see this liquidity drying up. The money is not disappearing; it is just going into other hands and wending its way back to the market.

An economist who analyzes currency flows for an international agency said: "While we see the supply of funds of OPEC to the market diminishing, we see the reappearance of other sources of supply, especially from the United States. There is constant arbitrage between international and domestic markets and non-bank U.S. depositors are going into the Euromarket. Ioternational investors are generally becoming more sophisticated about interesting possibilities in the Euromarket compared to their own backyard.

"But most important," he said, "one must remember the reinvestment of interest proceeds. These tend to be reinvested in the market. That holds true for all deposits. This factor tends to be constantly underestimated when talking about past growth and also prospects — the built-in growth that you get in a market as soon as it has been going." A banker at Bankers Trust in London said that the drawdown in OPEC deposits "makes a small difference on the total liquidity but it's not really a big impact. It hasn't anything to do with the contraction in lending that we have seen."

Both the economist and the banker suggested the more significant factor to consider is the role of the Arab banks in future Euromarket lending. Those banks have become increasingly active in lead managing syndicated loans. But they are younger than most Western banks and just have not had the time to get an enormous amount of risky loans in their portfolios. They, therefore, are not very highly leveraged and have room to expand their portfolios while many Western banks, finding themselves stuffed with doubtful loans, are putting the brake on new leading.

Added to this is the possibility that the oil-exporting countries will wait until the end to draw their deposits out of the Arab banks, starting first with the Western banks. Saeed al-Atrash, former head of the Libyan-Algerian Banque Intercontinentale Arabe, said recently: "Even if the price of oil goes dowu, even it is goes to $25, which I don't expect, it will not have any sort of influence on our activity or in our deposits."

Someone is going to have to extend loans to the developing world to see them over their present crisis and there are signs that Western bankers may be looking to these Arab banks. Already the external debt service payments of some of the lesser developed countries is more than their estimated exports of goods and services for this year, according to Morgan Guaranty statistics. They show that even some OPEC members are in precarious positions.

Paul Erdman, Mr. "Crash" himself, still despairs. "How the hell do you find the next $10 million that Latin American will oeed in the next quarter?" he asked. "If the oil price stays where it is, you will have a serious problem. You could argue that really what we need is a higher oil price. Point 'X' won't come in '82 or '83. The critical period will come two to three years from now."

The Crash of '85? "Baloney," retorted a Paris-based international economist, discounting the threat.

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TOTAL ASSETS:	TL	47,985,809,000
SHAREHOLDERS' EQUITY:	TL	1,801,511,000

SHARE CAPITAL increased to TL 4,000,000,000 (TL 1,375,000,000 paid up at June 30 1982)

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EUROMARKETS

Record Year for Volume of Eurobonds Increases Size and Importance of Market

(Continued from Page 7S)

age, has been to allow investors to delay paying for new issues. This is done either through offering a bond now for payment in two months time or offering to accept a partial payment of 15 percent to 35 percent now and the rest at a set date next year.

An important new tool for borrowers to save money are issues designed as interest- or currency-rate swaps. Investors are not beneficiaries here. Interest-rate swaps match a weak borrower who wants, but cannot afford, fixed-rate long-term money with a strong borrower who would like to lock up very low-cost long-term floating rate funds.

Due to the existing quirk in the market whereby virtually any respectable company can issue floating rate paper at half a percentage point over the London interbank rate for three- or six-month Eurodollars, the weak creditor issues floating rate paper. The stronger partner, a bank that is interested in floating rate money at, say, one percentage point *below* Libor, issues a seven-year bond bearing a coupon of 11 percent.

After an exchange of contracts between the two, the weak corporate issuer, which would have had to pay close to 14 percent to float a bond, agrees to pay an annual fixed interest of 12½ percent — its own ½ point over Libor, the bank's 1 percentage point under Libor and the 11 percent annual coupon cost of the bank and the bank gets its money at 1 point under Libor. Both partners get their money at a cost they could not otherwise hope to achieve.

The bank goal is not a standard 1 point under Libor. Bank of America is reported to have done a deal at 1.6 points under Libor while other deals are said to have been done at just half a point under Libor. This is a limited market since in the current environment of worries about bank solvency only the biggest and most prestigious banks have access to the fixed-rate bond market at terms low enough to make the swap possible.

Currency swaps involve two creditors who are unable to borrow the currency they prefer at the rate they want. Because U.S. corporate names enjoy a special status with European, particularly Swiss, investors, they can borrow in Swiss francs or Deutsche marks at terms more favorable than, for example, Austrian state-owned entities that have already borrowed heavily in those markets.

However, the sovereign guarantee for the Austrian borrower gives it access to a lower coupon rate in the dollar market than the corporate borrower could hope to get. So the Austrian borrows dollars, the American borrows francs and they swap liabilities.

A commercial bank usually stands as intermediary between the two borrowers and earns a commission for guaranteeing that each side will honor its contract. The bank is not assuming any risk on the principal (if one side defaults, its obligation is simply not paid) but does assume an exchange-rate risk if one side should default. Canadian and French banks are the most prominent guarantors, and all other nationalities are a distant third, according to one expert.

The non-dollar sectors of the Eurobond market were nowhere to be seen this year. The

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Global Economic Strains Test East, West

Persistent Downturn Goes Beyond Debate Over Free Trade or Protectionism

(Continued from Page 7S)

from tackling just one problem without tackling all of them. There is no way, for example, to cure the huge debt payment problems without first bolstering the world economy. Yet economic growth is going to remain weak so long as the mountain of debt looms over so many countries.

As Anthony M. Solomon, president of the Federal Reserve Bank of New York, puts it, solving these problems is a matter of "restoring balance in an interdependent world."

The problems are very much the legacy of the economics of the 1970s — years of inflation, generous bank lending policies, rapid growth in the less developed countries, oil price shocks and creaks in the functioning of floating exchange rates.

But they are also partly the result of the concerted efforts — some called them misguided — by the leaders of the United States and other countries to cure the perceived ills all at once, in large part through tight money policies.

Inflation has indeed fallen sharply, but so have the prices for many export commodities, including oil. And while stock markets around the world have surged upward recently and interest rates have declined, the real cost of money has remained exceptionally high for consumers, for businesses and for countries deeply in debt.

Furthermore, the price of the restrictive monetary policies has been enormous. Layoffs, plant closings and bankruptcies are the norm around the world. Unemployment in the industrial countries has soared to 30 million, up from 21.5 million only two years ago.

Countries such as Mexico, Chile, Argentina and Brazil, which have been trying to bring their standards of living closer to those of the developed countries, have suddenly lost their footing as the world economy has deteriorated and their markets have dried up.

As C. Fred Bergsten, director of the Institute for International Economics and Assistant Secretary of the Treasury for International Affairs in the Carter administration, pointed out, in 1981 the economies of the developing countries grew less rapidly than their populations for the first time in more than 20 years. And for many countries, the prospect this year is for even slower growth.

Even the Communist nations of Eastern Europe face problems. In large part, their difficulties stem from the weaknesses in the Soviet Union, in both agriculture and industry.

But the growing interaction of these countries with the West, both in trade and finance, has made them more vulnerable to Western business cycles and downturns. Like the developing countries in the other parts of the world, the Eastern European nations have been squeezed between higher interest rates and sagging markets for their goods. In Poland, political turmoil has compounded the problems.

What concerns experts most, however, is the fear that unless there is renewed growth soon, the situation could deteriorate further through a trade war, a financial crisis or some other problem that is not anticipated.

For while the current problems are clearly economic in nature, their solutions are largely a matter of politics, and what may be in the best interests of one sector or one country may not be in the best interests of another — or of the world economy.

What most analysts see as a necessary first step out of the economic morass is for the major countries — the locomotives of world growth — to deal with their recessions. Such recovery is desirable in and of itself. It is also necessary if the other problems are to be worked out. But most of these countries are still more concerned with controlling inflation than with accelerating growth.

The United States government's policy is aimed at restrained recovery, because the White House fears that a robust recovery may reignite inflation. But some observers doubt that growth will reach even modest levels. They question how long the Federal Reserve Board will pursue its relatively easier credit policies of the moment and whether huge budget deficits will abort recovery by pushing up interest rates.

Nor do the prospects for the other key economies appear much rosier.

Japan, although it has so far maintained some growth, has faced relatively slack demand in its domestic markets and declining demand for its exports because of the weakness of its major markets.

West Germany, which suffered a minimal decline in its economic activity last year, will see only slow growth this year, according to most forecasts. Like Japan, it has relied on strong exports to support its economy and it, too, has been hurt by the falloff in world trade.

Complicating the path to recovery is the multitude of other problems.

For example, recession has magnified the structural problems many nations face, including slow growth, low productivity and shifting competition. The need to deal with these problems, notes Mr. Roosa of Brown Brothers Harriman, means that recovery "will require more resources and take longer than usual."

Even before the onset of the recession, workers in the developed countries in such industries as automobiles and steel, shoes and textiles had lost their jobs to foreign competitors with more modern technology and lower labor costs. And as markets have shrunk, everyone has been competing for less business, giving rise to protectionist pressures in all countries.

The developing nations are faced with structural problems of a different sort. Aside from the pains that accompany industrialization, they must worry about sustaining their development plans if capital is less available, energy is more expensive, export earnings are reduced and the world economy grows less rapidly. Their reliance on a limited number of export commodities is troublesome.

No country has found simple answers for adapting quickly and painlessly. Some of the less developed countries will be forced to design new strategies as a condition for the restructuring of their foreign debt.

Among the developed countries some, like Japan, have active industrial policies that involve government in the process of sorting out which businesses will survive and which ones will not. The United States has relied on a more laissez-faire approach, which some critics feel is inadequate. But it is clear that millions of industrial jobs in the United States and other nations are lost forever.

Failure to deal effectively with the adjustment burdens, however, is likely to lead directly to further efforts to block trade and to protect domestic markets from foreign competition, and it is this issue that is being addressed by the GATT meeting this week in Geneva.

Economists agree that curtailing free trade will spell doom for the world's economics. But that argument does not prevent the hardest-hit industries from seeking protection for their products.

Even for the United States, which is more self-sufficient than most countries, trade has become increasingly important. According to figures from the Institute for International Economics, trade as a share of gross national product has doubled in recent years: It accounts for a third of all corporate profits. More than 20 percent of all industrial output in the United States is exported. And the produce of two out of every five farm acres is sold abroad.

But this has not stopped the United States from seeking to curb imports of Japanese automobiles, European steel, textiles and sugar. And now Congress is considering legislation that would require virtually all automobiles sold in the United States to be built substantially of parts made in the United States. Other countries have been taking similar actions.

These steps, which have contributed to the recent decline in trade, have focused special attention on the GATT meetings, which free-trade advocates hope will turn back growing attempts at protectionism.

But John Moller, a vice president at Manchester Associates, a Washington consulting firm specializing in trade, warns: "If the GATT ministers don't do more than say that there are tremendous problems, it will be very difficult to hold on to the progress that has already been achieved."

Of course, any deterioration in trade will worsen the picture for the less developed countries that rely on earnings from commodity exports to service their foreign debt and help pay for development. The grim prospects for any substantial upturn in economic activity and trade make their existing debt problems look even bleaker, and many financial experts worry about whether the financial system will survive intact.

The amounts of money lent to the developing countries in better days are startling, and high interest rates raised the cost of the debt just when the countries became less able to support it because of the decline in export earnings.

According to Data Resources Inc., countries such as Argentina, Chile, the Philippines and Mexico all have foreign debts equal to about half of the value of their yearly economic activity, while for Singapore, the figure is 66 percent. And Chile and Argentina both face debt-service payments equal to about 90 percent of the value of their exports.

World bankers have devised an approach to this. It calls for problem countries to develop austerity plans that curb imports and

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EUROMARKETS

Latin America Is Urged to Increase Its Exports to Restore Economic Development

By Michael Frenchman

EXPORT or die is the latest message to Latin America. This comes in a new assessment of the region by the Inter-American Development Bank in its 1982 report published on November 22. It makes a detailed analysis and projection of the future economic and social progress of Latin America, *which is now the most indebted* area of the world.

The report presents a "stop and go" fiscal and monetary scenario for the industrialized countries with an alternative "consistent" one and judges its effect on the future development of Latin America. It predicts that the region's economic recovery will depend largely on its ability to "*export manufactures* at a sustained and substantially faster pace than at present."

The report points out that Latin America's export drive nearly approached that of the East Asian countries during the difficult period between 1976-79 and that last year Brazil had been even more successful than Korea or Taiwan. However, the report stresses that wide fluctuations of effort, even in Brazil, left the export question open but it "*may prove* to be the region's alternative."

This forecast comes to a year when shock, fear and a certain amount of panic has been the international banker's constant diet as the specter of three major Latin American borrowers going to the wall loomed a little too near for comfort. In February, Mexico practically halved the value of the peso against the dollar as the fall in oil prices raised difficulties with *her $80-billion external debt.*

Further south, on the other hand, Argentina's war with Britain over the Falkland Islands greatly exacerbated its economic problems, including an external debt of $37 billion. And with the November elections Brazil's foreign debt was approcahing $90 billion before possible remedial action could be allowed to take place.

In what was seen as tantamount to a unilateral debt rescheduling, the Argentine central bank has said it will exchange notes or *bonds for about $5 billion in private* debts to foreign banks. It was Buenos Aires latest measure to tackle its payments crisis. The country has already reached an advanced stage in negotiations for financial help from the IMF.

Under the new plan the central bank will in effect take over the *obligations of people* who borrowed abroad 18 months ago with guarantees that the bank would sell them dollars at a concessionary peso exchange rate. The bonds on offer to the creditors will carry a rate of interest to be adjusted every six months and can be redeemed to four installments between November 1986 and November 1987.

Meanwhile, Brazil has announced plans to borrow $500 million from the IMF, ending weeks of speculation that it would do so. Bankers said the withdrawal of many foreign banks from Latin American lending over the last few months made the move inevitable.

What does appear to be encouraging *as far as Brazil is concerned* are the reports of a total restructuring of the economy by Minister of Planning Antonio Delfim Netto, who devised the crawling peg devaluation in the 1960s. Brazil has been caught up in a vicious circle and is now having to pay something like $1 billion a month in refinancing of old debts. Under its *new policy the planners have*, in accord with the IDB's report, put greater stress on exports for the future while cutting back on imports. They believe that the enormous capital project investments made in the last decade are now ready to start paying dividends for the export of manufactured products. Any new capital borrowing will be *tailored* to *what the bankers* are prepared to lend rather than the other way round.

If Brazil does have to make recourse to the IMF there will be none of the bysteria that has taken *place over Mexico as most bankers* have a great deal more confidence in the management ability of Brazil's economic and financial planners. And historically the country's vast natural resources, which paradoxically do not include an abundance of bydrocarbons, make its development less volatile.

The IDB, which has detailed comments on all countries within the region, believes that after a decade of growth rates reaching almost 6 percent the economies as a group will have declined by about 1.6 percent this year. Future pros*pects of the area will be directly* affected by *developments* in the economic policies of the industrialized countries themselves, "especially those related to employment and price stabilization." The report states that these policies will also affect freedom of trade as there will be mounting pressure for more protectionism by the industrialized countries to stimulate their own employment activity.

Latin America now accounts for more than 60 percent of developing countries' liabilities to the international private capital markets. "The size of this bank debt and its effects on terms of borrowing and debt service frequently fail to receive the attention they warrant," according to Ricardo Ffrench Davis, a Chilean economist writing in the IDB Report. He says the primary reason for this neglect is *lack* of data and statistics.

He argues that the apparent growth of gross domestic product, exports and reserves has enabled *many countries* to *acquire* "an image of creditworthiness." In 1980 the seven principal borrowing countries — Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela — accounted for 89 percent of the total debt, which was put at $205 billion, and 93 percent of the bank debt, $160 billion.

Another part of the report criticizes the Latin American economies for their financial management and, for instance, not making full use of short-term adjustments and for having a too favorable attitude toward debt as opposed to encouraging foreign investment.

"Latin American policy makers should give high priority to improving the structure of the flow of foreign capital by tocreasing the *proportion of direct and portfolio* tovestments in this decade," the IDB report urged. It went on to stress the importance of this to the future because real interest rates on the international capital markets will be higher than those of the last two decades and there will be a shortage of available funds. Without easy credit, the report suggested, "any future foreign indebtedness should be channeled to investment projects and programs yielding high economic returns."

It also noted that Latin American countries that are well integrated with the international economy must seek the "golden mean" between the economic extremes of excessive interventionism and todiscriminate liberalization.

Based on the results of an inter*national economic model* over the next four years the IDB anticipates that Latin America's overall growth will show either steady improvements or sharp fluctuations depending on the international situation.

Under the "consistent" scenario, in which the fiscal and monetary policies of the industrialized countries was closely coordinated, there would be a steady improvement to the world economy, lower inflation and interest rates. This would lead to a modest expansion of Latin America's external debt, which *now totals $260 billion. This*, in turn, would lead to gradual economic recovery between now and 1986 when growth rate would peak to "a robust 5.5 percent." There would also be an important general improvement in debt service ratios.

A less optimistic view is given with the alternative "stop-go" model in which economic policies are designed to alternatively stimulate growth and control inflation. The *report* said that *following* an initial boost the Latin American economies would "falter badly" after 1983 and growth rates would drop to 1.4 perceot in 1986. Consequently, "development finance ratios of the region would continue to deteriorate under those cooditions," the report stated.

The principal external variable will continoc to be exchange rates and international reserves. The IDB report noted that Latin American currencies had been progressively overvalued in the seventies. In both of its scenarios it is assumed "that this trend will be reversed during 1982-86." It expects that there will be an effective 4-percent devaluation of all Latin American currencies.

The region's recovery will depend largely on its ability to export to the industrialized countries. The IDB forecasts that exports will rise to 6.5 percent a year in 1986 under the "consistent" theory but "fall quickly from 6.9 percent to 1983 to 4.7 percent in 1986 under the stop-go scenario."

The IDB believes that the success of the export drive will depend not only on the international trading situation but "will primarily be determined by what happens to the productivity of the region's manufacturing industry." It sees a need for much lower unit costs, increased productivity and "a willingness to increase expenditures oo applied research *and* development."

The report also drew attention to a *new phenomenon in* Latin American trade that has emerged during the 1970s — "an incipient but growing flow of technology exports." These have come primarily from the countries with a sound industrial base like Argentina, Brazil and Mexico. Related to this is also the export of surplus capital in the form of direct foreign investment.

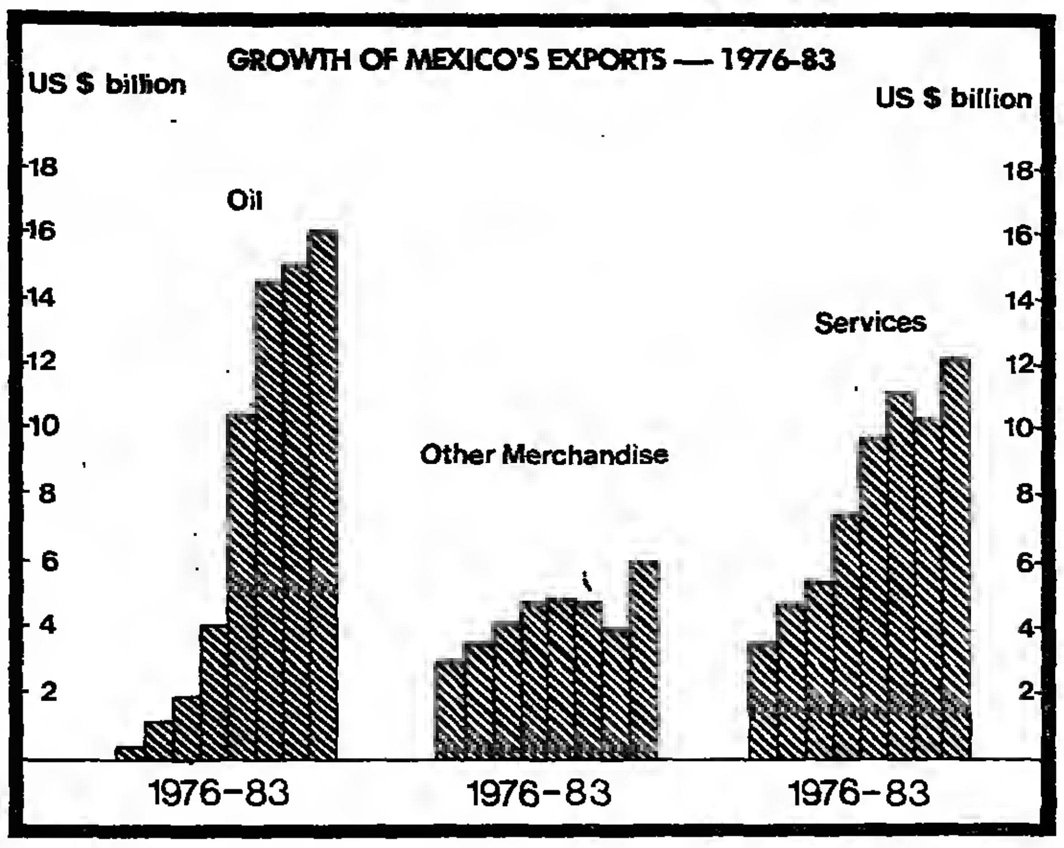
Analyzing data and risk assessment are vital components to establishing creditworthiness. Looking at the "risk factor" is one of the basic elements of big bank lending, something that certain *bankers have expressed concern* about.

In the Mexican credit shock this year, which led to a private "summit" of international lenders to New York last month, the representatives of more than 30 banks have agreed to set up an international insutute as a "borrowing" watchdog. Part of its purpose will be to "improve the ability of institute members to analyze independently the risk of exposure to the major borrowers in the international markets."

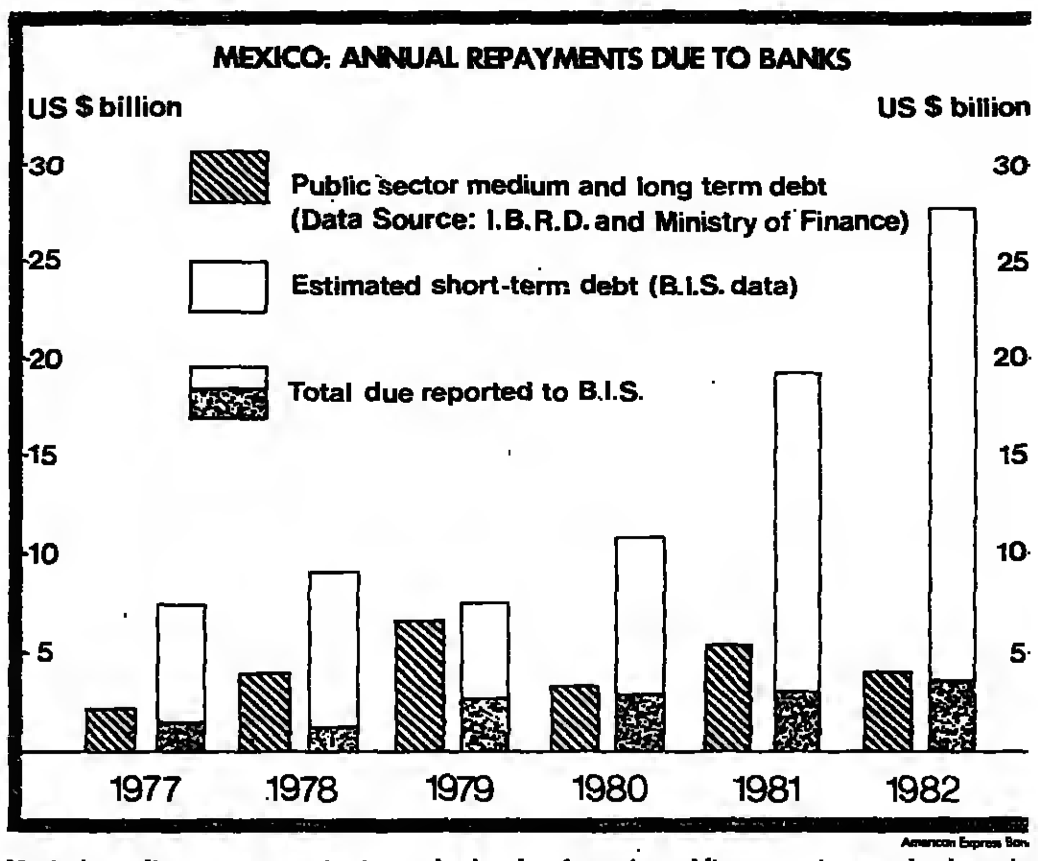
Looking for the warning signs and examining "background noise" is one of the main functions *of banks* and *their research* departments. But in the case of Mexico it seems to have gone wrong. Little attention was paid to the initial "noise" two or more years ago and bankers went on lending. One elearing banker commented: "They had the black stuff — oil — and that was all that many of us thought mattered." Little attention was paid to the failings of Pemex, the national oil agency, and other factors.

Richard O'Brien, of Amex, in London believes that on the whole *European banks* are *sometimes* in a better position to look at the risk factors of Latin America borrowers than the United States banks, which are eloser to the scene. "It's a question of perspective," Mr. O'Brien said, "and the U.S. banks are sometimes not as realistie in their assessment. Perhaps we in Europe have a more independent perspective and the system is also a little more formalized in the U.S."

His bank has a system of 35 economic ratios and eight check points for risk analysis as part of the overall assessment of a would-be borrower. Although Mr. O'Brien feels that greater attent should sometimes be paid to ba ground "noise" — politics other issues as well as domestic nancial and economic houseke ing moves — he does not th that bankers should be critici for missing signals from the La American economies. For exa ple, he believes that a country Argentina is one of the most di cult to assess because of its vola *payments record over the* ye "and no-one could have fores the Falklands war."



The buildop of oil production sioce 1976, then the rise io oil priees in 1979-'80, raised oil earnings from $300 million in 1976 to $10.4 billioo in 1980. Io 1981 earniogs continued to rise, but more slowly than expected due to the onset of the oil glut, reaching $14.6 billion against a targeted $20 billion. In 1982 and 1983 earnings may be slightly higher but a major increase is not expected unless production is expanded or priees begin to recover.



Mexico's medium term amortization to banks, due from the public sector, increased substantia between 1977 and 1982 with $4.2 billion due in 1982. The totals reported due by the Bank International Settlements also iocreased, particularly in 1981 and 1982, reaching $27.7 billion 1982. The estimate for short-term debt calculated from the B.I.S. data includes some of debt with original maturity of between one and two years.

> This forecast comes in a year when shock, fear and a certain amount of panic has been the international banker's constant diet as the specter of three major Latin American borrowers going to the wall loomed a little too near for comfort.

EUROMARKETS

Evolution of Lending in Eurocurrencies Spurs a New Breed of Bankers' Lawyers

By W. Tudor John

LONDON — It seems as though it has been here for ever, the Euromarket that is.

Banks employ legions of people who specialize in Eurocurrency lending; financial centers — London and Hong Kong in particular — have attracted a myriad of new banking bouses to deal with international loans; magazines, which discuss the market and its personalities, flourish; an industry of conference-arranging has developed to teach us what we do not already know about the business; and the few law firms, including many U.S. affiliates, that have built up specialist departments to deal with Eurolendings are household names — at least to the bankers, the magazine publishers and the conference arrangers who know about such things.

And yet the business is young. In reality, the Euromarket began to evolve, as the creature we know today, in the late 1960s and early 1970s — so short a time for so many experts to have sprung into being and for the creation of what appears tn be a new system of law and too short a period for the telling of legends about the business or for people to forget how it really all began. But ask a banker who it was that launched the first syndicated loan agreement and you will find almost as many different, intriguing answers as people asked.

In a sense this is not surprising. The business of lending Eurocurrencies has grown so quickly that the practitioners, many of them comparatively young, seem to have known each other for ever and developments that in other areas have taken place over many decades have occurred almost overnight in the Euromarket.

Nowhere is this evolution more apparent, perhaps, than in the legal area. My first Eurodollar loan agreement ran to four pages — and even then it was considered too long. Loan contracts today can be several bundred pages in length, particularly if dealing with the financing of complex projects.

Fifteen years ago, no one would have dreamed of asking the lawyer who produced an agreement to write an opinion stating that it was legally correct. It would not have been expected of him to prepare something that was not binding on the parties. But today, a loan can almost be unmarketable without an opinion of this sort.

Documents have developed this way as a result of experience. For example, the now common *force majeure* clause, relieving a bank of its obligation to lend if circumstances affecting the Euromarket make it impracticable for the bank to fund itself, arose in the early 1970s following the difficulties experienced by Japanese banks in obtaining Euromarket deposits and sovereign immunity waivers. It also followed upon the enactment of new law in Britain and the United States limiting governments' rights to avoid legal process by claiming immunity, which came to being as a result of unconscionable behavior by certain states when faced with claims for foreign creditors.

This development, both of the law itself and of Euromarket agreements, has been brought about by a comparatively small number of law firms. There are some 10 firms in New York, about the same number in London and one or two in Hong Kong that can claim to he Euromarket experts. Each has developed its own banking department, where the partners and associates spend their entire working time dealing with bank loans, bond issues or private placements.

For the London firms the emergence of Euromarket business could not have happened at a better time: the decline of domestic corporate legal work in the 1970s — as a result of the weakness of the Stock Market — could have resulted in many corporate specialists becoming idle, a disastrous happening for firms whose principal source of income had derived from share issues, flotations, takeovers and the like.

Thus, when international lending increased at that time, a number of corporate lawyers became hankers' lawyers, and those firms that were able to turn to banking clients to fill the gaps left by the relative inactivity of their domestic corporate customers were to grow and prosper at a time when British commercial activity was on the wane. The relationships that developed then still exist today: Coward Chance with Citibank, Slaughter and May with Morgan Guaranty, Linklaters & Paines with Bankers Trust, Allen & Overy with Chase Manhattan. Similar relationships exist between the New York law firms and their banking clients, though there the links were forged in most cases many years earlier.

The principal Euromarket law firms have learned to adapt quickly to changes in the financial climate of the Euromarkets. When the fixed-interest-rate market is active, it is generally true to say that floating-rate lending drops; when traditional loan sources become less active, private placements increase. Borrowers still have to borrow. The Eurolawyer thus has had to develop the skills of preparing and negotiating loan contracts and bond issue prospectuses, of tackling agreements acceptable to a syndicate of banks and of preparing securities documents acceptable to stock exchanges.

The importance of adaptation to change has become exceedingly clear over the last year. With an increasing number of loan defaults, the Euromarket lawyer now must be as nimble at drafting rescheduling documents as he was at producing the original loan documents and he must steel himself to face the delicate relationship between the lenders themselves in such situations, particularly if some involved in the "workout" wish to be treated more favorably than others.

Some lawyers who six or seven years ago would be dealing with syndicated loans only — and sometimes as many as a dozen at a time — now will be spending at least 30 percent of their time dealing with the intricacies of a Mexican, Ecuadorian, Norwegian, Spanish or some other type of debt rescheduling, while at the same time expanding their knowledge of the bankruptcy laws of other countries. The lessons learned from this will be invaluable for future loans and may lead to the expansion of future loan agreements.

The style of documents for the different types of transaction may differ, but the clients' demands do not. The lead manager for an issue will require his prospectus and subscription agreement as speedily as the lead bank in a syndicated loan; the marketer of a private placement will want an instant action as a deht-rescheduler. A recent survey among international banks indicated that speed in producing documents was regarded as one of the most important factors in choosing a law firm. Typically, today a bank will instruct his lawyer with a view to having agreements produced within 24 bours — 48, perhaps, if the deal is complicated. Those who cannot meet deadlines lose the business. In expertise and speed there is little to choose between the principal London and New York law firms. The trite question as to wbether London lawyers are better or worse than those in New York seems pointless. A cursory examination of one law firm's record against another's will show that the legal agreements are much the same and document production just as speedy. The experts in each firm have dipped into the same well of experience and will provide the same type of service.

What is important in this business, like any other, is cost and the interrelationship of people. On cost, it is probable that London lawyers may be cheaper than those in New York, but the gap is closing as lawyers begin to realize that their industry can be as competitive as any other. It is far more common today for banks to seek free quotes from their lawyers and to compare them with those of other firms before business is placed, and even the closest of banking/lawyer relationships may not escape this exercise.

While fees on a transaction may vary from £5,000 to £100,00, depending upon the hours worked by the lawyer and the complexity, they will probably vary little from one law firm to another and a law firm may lose business because its estimate of cost is £1,000 higher than the next firm. London lawyers have experienced this for longer than the New York firms and may be more conscious of the need to keep fees low to retain clients, but there are signs of similar developments beginning in New York.

The independent Euromarket lawyer also is faced with more competition from his client, as more banks develop their own legal departments. This of itself leads to lower profit margins on loan transactions — as well as producing personnel problems for the law firms whose bright young men are lured away by customers whose ability to provide immediate pecuniary rewards surpasses the promises for the future that the lawyers provide.

Above all, perhaps, the relationship between the lawyer and his customer is the most important factor for the successful firm. Every customer likes to feel that his work is being dealt with by a partner with whom he can communicate, and the one thing above all others that loses clients for a lawyer is the inability to produce another partner to deal with a matter when he happens to be away from the office. Depth of experience in a firm is vital, and one of the trickiest exercises for a firm is to generate such experience in its younger lawyers, while meeting the clients' need to have few people working on a transaction — to reduce cost — and to have an experienced partner be seen to be doing the work — to overawe the opposition.

Experience has shown that the Eurolawyer can meet change and competition and will continue to be able to do so. Lawyers in New York have survived what appears to be the undercutting of fees by their London counterparts and London lawyers have appeared to meet the potential loss of husiness threatened by the establishment by some U.S. banks of international banking facilities in the United States. Changes have been faced, but not without some impact, and lawyers' profit margins for the future will never be quite the same as before.

The author is a lawyer practicing in London.

A Larger Role for International Bodies Is Advocated to Deal With World Debt

By Caroline Atkinson

WASHINGTON — The international financial system is under strain. That much the experts agree upon. They are, however, less sure about who should deal with that strain, and how.

In this worrying year, many international bankers and officials have begun to look again at the role played in the world hanking system by international institutions such as the World Bank and International Monetary Fund. A number now believe that these institutions should have a sizahle increase in resources to enable them to play a bigger part in the world's money system in the difficult years expected ahead.

The World Bank and the IMF are in the business of lending money to developing nations, the husiness that commercial banks are increasingly nervous about. They were set np together at the end of World War II in an attempt to avoid a repetition of the economic and financial chaos of the 1930s, by providing an international framework for the smooth operation nf trade and money transactions between nations. A World Bank pamphlet describes their aim as providing "the monetary and financial machinery that would enable nations to work together toward world prosperity."

The two agencies lend in different circumstances and for different purposes, and it is to the IMF that most international financiers look for quick aid for the strained international economic system. The Fund, as it is often called, has a more direct role in the day-to-day workings of the worldwide banking and financial system than does the World Bank.

Fund officials monitor the overall economic and financial policies of the 146 member countries, with particular attention to the effect of government policies on the balance nf payments. When the IMF lends money, it lends directly to governments, typically for short periods, in order to tide them over a short-term financing crisis. Commercial banks are almost always involved in sueh a crisis, and IMF officials often spend some time overseeing talks between a borrowing country and its private ereditors. The IMF keeps in elose contact with central and commercial bankers.

In return for helping countries to cope with a balance of payments crisis, the Fund imposes conditions on government policy aimed chiefly at cutting back the trade and payments deficit. These conditions usually commit the borrowing nation to austerity measures, such as cutbacks in puhlic spending and subsidies, reduetions in government employment and tax increases. The Fund often insists that a borrowing nation devalue its exchange rate as well. This in turn makes it more costly to import foreign goods.

Before the financial upheavals of the 1970s, the Fund typically lent for only up to one year. Debtnr natinns were supposed to be hack in the hlack by the end of that time after following the IMF's recommended policies. Now, however, many Fund loans are stretched over three years. In additinn, the IMF recognizes that in today's world of gaping balance of payments deficits in some countries and large surpluses for others it is unrealistic to insist that each borrower strive for balance.

The recent tentative agreement with Mexico will be for three years. The mnney will be dishursed in stages, with the Fund free to hold back the next installment if the Mexicans have not lived up to their promises on public spending and borrowing.

Such belt-tightening measures account for the IMF's widespread unpopularity among developing nations. They are also a major reason why private bankers often feel happier if borrowing nations go to the IMF. The agency can enforce the kind nf policies that bankers like but cannot insist upon.

However, the amount of money that the IMF has to lend is tiny in relation to tbe financing needs of many borrowing nations. Last year it lent less than $15 billion for balance of payments assistance, an IMF spokesman said.

Each country may borrow only up to a certain limit. This is tied to the size of the natinn's quotas, or currency deposits with the Fund. Under the terms of the Mexican loan, for example, the Fund will lend the nation the maximum 150 percent of quota for each year of the three-year loan. This adds up in about $3.8 hillion over the three years, compared to total Mexican foreign debt of more than $80 billion. In the last year, the nation has borrowed an estimated $20 billion.

The importance of the IMF money for Mexico is not so much the amount as the signal that it gives to Mexico's other creditors. The government hopes that with an agreement with the IMF under its belt, private bankers will start to lend again.

The World Bank is at one remove from such considerations. In contrast to the short-term nature of IMF loans and loan agreements, it lends most of its money long-term. Moreover, the vast majority of World Bank loans go to support particular projects, such as building a dam, in individual countries, rather than to supply foreign exchange to governments for the purpose nf covering a balance of payments gap. While the World Bank lends money only after considering whether it will be well spent, it does not tie governments to particular macroeconomie policies in return for its money.

The World Bank really consists of three institutions under one umhrella: the International Bank for Reconstruction and Development, which is the main lending body; the International Development Association (IDA), which lends money at low interest to the poorest natinns in the world, and the International Finance Corporation, whicb lends money mostly to private sector enterprises in the Third World, rather than to the publie sector.

The Bank raises the money for loans on the world money markets, where it has an AAA rating. It lends for between 17 years and 20 years on a commercial basis and prides itself on never having lost money on a loan. While the IDA lends for similar projects, which are evaluated in the same way as the Bank projects, the money is lent at concessional rates for up to 50 years. This is financed by the richer industrialized nations.

In the past year the Bank has lent $10.3 billion, and the IDA $2.7 billion. About 25 percent of the tntal was for agricultural projects, such as irrigation, a further 24 percent for energy-related projects, 12 percent for transportation, and 7½ percent for industrial projects, such as building a fertilizer plant or a textiles factory.

The bulk of the money lent by the World Bank is thus still project-related. But in recent years it has begun to make "structural adjustment loans," known as SALs, whieh are for shorter periods than usual and are tied not to particular projects but rather to an overall government program. In the latest fiscal year, these accounted for $1.2 billion, or just under 10 percent, of total World Bank lending.

Last week World Bank president A.W. Clausen hinted at the United Nations that the World Bank might step up these loans to belp poor nations now teetering on the edge of bankruptcy, who need money more urgently than is possible for project loans, and for more general purposes than simply financing a particular project.

Private bankers certainly hope that both the IMF and the World Bank will devote more money to bail out developing nations who are finding it harder and harder tn keep up payments on existing loans and who need repeated infusions of new capital to keep up payments for imports and deht servicing.

However, when private bankers began calling for more money for the multilateral institutions like the IMF and the World Bank, the U.S. government under President Ronald Reagan was arguing for retrenchment. Without the backing of the United States, the largest contributing nation in both of these Washington-based organizations, it would be very hard to give a significant boost to the power and resources of the Bank and Fund.

Recently, it appears, the United States has eased its opposition to the calls for early, big increases in Fund resources. Some people are pushing for a 50-percent increase in Fund quotas, or currency deposits, which would increase its lending capacity hy about $15 billion. In addition, some bankers favor a special emergency fund of $20 billion or so for countries desperately short of cash. The IMF could dip into such a pool of money swiftly in case of a threatened default, which could upset the world banking system.

Simple arithmetic underlies the arguments for more IMF and World Bank money. Private banks have done the job of recycling money from cash-rich to poor nations almost single-handedly over the past decade. As the oil price shocks of the 1970s led to huge imbalances in the payments positions of different nations, the private banking system provided the channels for shifting money around the world from surplus to deficit countries. International bank lending has expanded at an annual rate of "well in excess of 20 percent" for the past 15 years, according to Geoffrey Bell, executive vice president of Shroder International.

Commercial banks have thus taken on a much bigger share of the total foreign debt of develop-

(Continued on Following Page)

EUROMARKETS

Scenario Paints Global 'Belt- Tightening' As Solution for Keeping Funds Flowing

By Karin Lissakers

Washington Post Service

WASHINGTON — Although we evidently do not want to face the fact, we are in the midst a global banking crisis — and the bankers who have the most to lose seem determined to push the system closer to the edge.

The basic elements of the crisis should be fairly familiar by now. On one side, Poland, Mexico, Argentina, Brazil and a half dozen other countries have accumulated much more foreign debt than their economies can support. On the other side, Chase Manhattan, the Bank of Tokyo, Germany's Commerzbank and hundreds of other banks have far more foreign loans at risk than they have capital and other reserves to draw on in the event of non-payment by borrowers.

That spells potential trouble, on a large scale.

What is the plan to avert a breakdown? It calls for economic "belt-tightening" and still more borrowing by struggling debtor countries, short-term credits from institutions like the International Monetary Fund and from individual governments (in the hope of making the austerity measures tolerable and to ensure that the debtors at least keep making interest payments), and more lending — at the higher interest rates — by private banks.

These steps may allow bankers to continue the pretense that their debtors merely lack cash, temporarily, and will have no difficulty paying if they can be carried through this awkward time. But it is only a pretense.

The reality is that the solution will create more debt, tighten the financial squeeze on debtor nations and increase, rather than ease, their debt burdens. In short, it may well move the global financial system closer to the disaster scenario everyone seeks to avoid.

That scenario need not be the collapse of a major international bank following a repudiation of its debts by a single country or by a "debtors' cartel," as many assume. Mexico, Brazil and Argentina reportedly did consider renouncing their debts and rejecting the austerity programs being pressed on them.

But they have backed away, for now, in the face of concerted warnings from the industrial countries and their banks that all new credit would be blocked and the defaulters' assets abroad — bank accounts, real estate, ships, planes and goods in transit — would be seized as payment for defaulted loans.

So Argentina and Mexico have reached agreements with the IMF, and Brazil is taking steps the IMF would be expected to demand under a stablilization program.

Although a number of other disaster scenarios also have surfaced of late, the U.S. stock market appears to have discounted the possibility of a major banking crisis. Indeed, bank stocks have risen sharply in the bull market of recent months as increased bank earnings have been reported (in some cases with the help of insufficient reserves being set aside to cover potential losses).

But the stock market's optimism in this case, as in others, may be ill-founded. As John Heiman, former controller of the currency, says, "The system can deal with the anticipated crisis; in this business it's the unexpected that gets you."

Talks with those who manage the international flow of funds suggest the "the unexpected" might be something like this:

It is Dec. 27, little less than a month from now. The trouble signs are noticed first by the 50 persons working in a little gray tower on an odd-shaped block toward the front of Broad Street, headquarters of the New York Clearing House. This building, at 100 Broad Street, houses CHIPS, the Clearing House Interbank Payment System, electronic nerve center of the $1.5-trillion Eurodollar market.

CHIPS is the central clearing mechanism for all transactions in dollars held or loaned outside the domestic U.S. capital market. It is a computerized "pool" into which member banks put all international dollar payments due to and from them that day. The 100 participants make these payments and withdrawals on behalf of all non-member banks active in the Eurodollar market.

At the end of the day, payments and withdrawals must balance. In recent months, the flow of payments through the CHIPS computer has averaged about $225 billion.

Late today, it is discovered that several participating Third World banks, including Banco do Brasil, a Venezuelan bank, an Argentine bank and two Mexican banks, have failed to pay into their clearing agents substantial sums due from them. The unwillingness of the New York banks to grant the

POINT OF VIEW

enormous loans necessary to eliminate the shortfall makes final settlement of the day's transactions impossible. Clearing House banks that were counting on payments from the Third World banks to cover their own obligations are left holding the bag for hundreds of millions of dollars.

CHIPS barely survived a similar experience in 1974 when the small Herstatt Bank was closed by German banking authorities in the middle of the banking day, leaving some banks dangling in mid-transactions with Herstatt. Two days later, the CHIPS system had virtually halted. Because of a sudden loss of confidence, banks were refusing to release their own payments until they had received payment from other banks owing them. Thus, every bank was waiting for some other bank to move first, paralyzing the process.

But then there were only 50 participating banks, all from industrial nations, and because the crunch came on a Friday, there was time before Monday morning to gather the chief executives of the major clearing banks and contact central bankers to work out a solution. The CHIPS computer was kept open — in effect extending Friday through the weekend. Assurances that the Clearing House would stand behind its members and backing by the Federal Reserve restored confidence in the clearing process.

Now the numbers are larger, and many more banks are involved. Confidence in the international banking system is already badly shaken, and this failure comes in the middle of a Christmas holiday, when both central banks and commercial banks are operating with skeleton staffs. Officials senior enough to make decisions have to be tracked down at ski lodges, Caribbean resorts and grandma's house. Decisions have to be made before the opening of business tomorrow.

Finally, the central banks of the five defaulting CHIPS members may not have adequate reserves to back those banks, even if they are willing to do so. Therefore, there seems no quick way to restore confidence.

This evening, CHIPS managers have no choice but to offer every member the option of withdrawing its payments from the clearing. All do.

The next day, all activity in the Eurocurrency markets grinds to a halt. No CHIPS member has been willing to put in its payments to other banks for fear of coming up short. On Wall Street, stock prices drop sharply as European and other foreign investors withdraw from the market, unable to move funds into the United States.

What is behind this collapse of CHIPS? On Dec. 29, a spokesman for the New York Fed explains that it has been caused by the failure of Argentina to pay several hundred million to banks in developing countries to cover goods and securities already delivered.

The government in Buenos Aires has refused all official comment. But an unnamed Finance Ministry official is quoted as saying that while Argentina cannot afford to default on credits from major industrial countries, its Third World trading partners are in no position to retaliate. Therefore, Argentina has deferred payments on its Third World debt and is using its limited foreign-exchange resources to continue paying the industrial nations.

The next day, the governments of Mexico, Brazil and other countries affected by Argentina's action announce that they will deduct from their debt payments to U.S., European and Japanese banks sums equal to the payments overdue to them from Argentina.

The Fed in Washington and the central banks of Western Europe and Japan announce that they will ensure the solvency of any commercial bank in their jurisdiction that might be hurt by the CHIPS breakdown.

The U.S. Agriculture Department urges all responsible authorities to act decisively to solve the problem. Shipments of U.S. grain bound for the Soviet Union are being held up because the Narodny Bank is having trouble transferring payment to the grain companies. And President Reagan has prohibited sales on credit to the Soviet Union.

The New York Port Authority says shipments of other goods are piling up at dockside. U.S. exporters apparently are holding up shipments as banks refuse to issue the necessary letters of credit.

Oil tankers are said to be circling in the Atlantic, barred from delivering their cargo because the CHIPS breakdown has tied up dollar oil payments.

On Dec. 31, the U.S., Western European and Japanese central banks announce that the U.S. Fed will temporarily take over the Clearing House operation and that each central bank will stand behind all transactions by its own banks through CHIPS. Banks that failed to make payments on Dec. 27, however, will be barred from using CHIPS.

But by Jan. 3, Mexico, Venezuela and Brazil have announced that they will halt all dollar debt payments until their banks are readmitted to CHIPS.

This scenario may be viewed as improbable, but it is not implausible. And the steps now being taken or proposed make it more, not less, plausible.

Remember that interest payments on foreign debt now constitute the single biggest drag on many debtor nations' finances. This year, these interest payments will equal 45 percent of Brazil's export earnings, 44 percent of Argentina's, 40 percent of Chile's and 37 percent of Mexico's.

In the case of Mexico, for example, none of the "rescue" measures will ease that nation's burden, and some will make it worse.

The $1-billion U.S. prepayment for Mexican oil and the $1-billion Commodity Credit Corporation credit guarantees for U.S. grain exports both carry commercial rates of interest. The $1.8 billion in currency swaps arranged by the U.S., European and Japanese central banks must be repaid soon, probably with part of the $4.5 billion in loan aid it is counting on getting from the IMF. But IMF loans, too, must be repaid — with interest.

These loans will not reduce Mexico's foreign debt or increase its productive capacity. All they will do is provide funds for Mexico to pay the $16.1 billion in interest it owes to private banks and to other creditors between now and the end of the year.

The banks are expected to reschedule at least the $22 billion in loans to the Mexican government that come due in this period. Rescheduling agreements usually stretch repayments over seven to 10 years, with two to four years' "grace." Interest on these rescheduled loans, however, must be paid currently and usually at a new, higher rate. A substantial rescheduling fee is also standard.

Mexico will also ask the banks to extend some new loans. Such loans will be made only at a substantially higher "spread" — a greater margin for the bank over the London Interbank Offer Rate, which serves as a benchmark for interest charged on most international loans. In 1981, Mexico was able to borrow at a spread of 0.5 percent. Now it will probably be asked to meet the same terms as Brazil, which in recent months has been paying 2¼ percent over LIBOR for eight-year money, plus a 4½-percent fee.

Thus, some of the benefits of declining interest rates in recent months are being offset by the bigger spreads and fatter fees banks are charging the most heavily indebted countries. From the bankers' viewpoint, the higher rates are justified by the risk they take in continuing to lend to these nations. But the real effect is more indebtedness and bigger interest burdens in the future.

Mexico, for its part, will have to slash imports and reduce its domestic standard of living so that more export earnings will be available for interest payments. The external accounts will look better, but the internal economy may be greatly weakened.

Deep cuts in imports could cripple much of Mexico's manufacturing sector, and a sharp contraction in Mexico's economy will only add to the recessionary trend in the world economy. As Secretary of State George Shultz has noted, if every debtor country adopts an austerity program, where is the recovery to come from?

If there were some prospect of a vigorous worldwide economic recovery in the next year or two it might make sense for even very heavily indebted countries to borrow still more to tide them over, planning to export their way out of the debt trap. But forecasters agree that the recovery in the industrial countries will be weak. Persisting high unemployment creates pressures on governments to protect domestic industries and jobs against foreign competition — especially against exports from low-wage, developing countries.

Under these conditions, the answer to the debt problem cannot be to lend already debt-ridden developing countries more money at higher interest rates.

There is an alternative: to provide real debt relief by allowing debtors to reduce or withhold interest payments for a time. Without the drain of large interest payments, debtor nations would need to borrow less and could devote the bulk of their export earnings to investment and paying for imports. A higher level of economic activity could be maintained without incurring more debt, and potentially destablizing reductions in the standard of living could be avoided. The world economy would benefit, and over time these nations would be in a stronger position to resume paying their debts. The banks have sought to avoid this solution, warning that if they do not keep lending and the countries do not keep paying interest, the banking system might collapse. Writing off the entire $300 billion

(Continued on Page 15S)

The author is a senior associate at the Carnegie Endowment for International Peace. She wrote this article for The Washington Post.

Debt: A Larger Role for World Bodies Advocated

(Continued from Preceding Page)

ing countries in that time. William Ogden, vice chairman of Chase Manhattan Bank, wrote recently that at the end of 1973, the international banking system held 36 percent of the foreign debt of the non-oil-producing, less developed countries. "By the end of 1981, this proportion had grown to 53 percent, or $250 billion," he said.

But with a growing number of developing countries having difficulties in meeting their repayment schedules, nervous banks have begun to draw in their horns. There has already been a marked slowdown in the growth of lending this year. Mr. Bell and John Heimann, co-chairman of Warburg Paribas Becker, estimated recently that a further slowdown in 1983 could leave developing countries $45 billion to $50 billion short of the money they will need to pay for imports and debt service.

They argued that official agencies must fill the gap in order to bolster the system. There has been a dangerous imbalance in the past between lending by official institutions, such as the IMF, and commercial bank loans to developing nations, Mr. Bell has said. This imbalance, with the private banks shouldering by far the greatest part of the recycling burden, has left banks vulnerable to economic difficulties in the debtor nations and, just as important, has made the borrowing countries vulnerable to a sudden cutback in bank lending

If the supply of money to the developing countries dries up, their only option will be to cut back imports and shrink their economies. Such a contraction in Third World economic activity will inevitably hurt the industrialized economies as well, by reducing the demand for exports, and could lead to unwelcome political instability.

It is now clear that banks, when frightened by problems in one country, tend to treat all others in the same area as if they are similarly risky. Often the withdrawal of easy access to new money can make the difference between continuing to operate successfully and being thrown into a foreign exchange crisis. When Poland's economic problems and inability to repay its debt became clear, commercial banks suddenly stopped lending to all of Eastern Europe.

After Mexico's financial crisis this summer, all Latin American countries suffered. Bankers apparently became nervous about Brazil, for example, whose debt is almost as large as Mexico's, because of the crisis thousands of miles away, but on the same continent. One Chilean economist remarked that many South American countries are infuriated by the effect of the Mexican problems on their ability to borrow.

The IMF and World Bank have both been urging banks not to apply blanket restrictions on their new loans, but to view each country separately and to keep on lending when possible. But what is needed now, some experts say, is a more formal recognition of official responsibility for the smooth functioning of the worldwide banking system.

With present IMF and World Bank lending capacity dwarfed by the needs of the developing countries, these institutions are unable to provide the practical assistance and psychological boost to confidence that is needed to reduce the danger of a sharp contraction in development finance, they argue.

The difficulty for the IMF is to make sure that any emergency lending program helps to expand the amount of total lending, and thus aid the borrowing nations, rather than going merely to bail out the banks.

Record Year for Volume of Eurobonds

(Continued from Page 10S)

Deutsche mark seriously undervalued, investors are in no hurry to buy DM securities as the economic outlook in Germany remains dim and the uncertain political outlook, with elections expected by next March, does not help.

Nevertheless, German economists are forecasting a balanced current-account this year after three years of deficits totaling a cumulative $29 billion. They forecast a $2-billion surplus next year and with it an improved performance of the mark on the foreign exchange market. Bankers believe this will set the stage for a strong revival of the DM sector of the Eurobond market.

Canadian dollar issues were back in favor this year, accounting for 2.6 percent of total volume. With the Canadian unit improving against the U.S. dollar, investors are attracted by the very high coupons paid on Canadian-dollar bonds.

A very modest but regular activity, mostly in the Benelux countries, has been maintained for issues denominated in European currency units, which have displaced the Unit of Account as a currency haven offering minimum exposure to foreign exchange fluctuations. Only one Unit of Account issue was floated last year, in January. Bankers say the UA has been displaced by the ECU because the latter has official backing — it is used by the Common Market — and a fledgling money market has developed, giving it the allure of a real currency as opposed to the pure bookkeeping concept of the Unit of Account.

The French franc, which had maintained a presence until the Socialist victory in May 1981, has also completely disappeared as a currency for new issues.

EUROMARKETS

Japanese Increase in Lead Management Shows Little Letup in Pace of Conquests

Special to the IHT

TOKYO — "If it wasn't for Japanese banks' participation, we would never be able to get these finely priced deals away."

The Tokyo-based American banker was referring to the Republic of Indonesia's $250-million, 10-year credit — at a spread of only ⅜ percent throughout its maturity, one of the most tightly priced Euroloans of recent months. Bank of Tokyo and the Long-Term Credit Bank of Japan shared the lead management of the loan with Chase Manhattan Asia and Lloyds Bank International.

The banker could as easily have pointed to any one of a dozen major credits in the Euromarkets where substantial Japanese participation made the difference between underwriting success and underwriting failure. Yet, it is only three years since Japan's Ministry of Finance stopped Japanese banks in their tracks by prohibiting their participation in medium-term and long-term Eurodollar lending. In October 1979, alarmed by what it saw as overenthusiastic expansion into international lending by Japan's banks, the ministry effectively forbade Japanese banks to join international loan syndicates. It lifted the ban in June 1980, when Japan's balance of payments was in a better state to permit capital outflows. Since then, Japanese banks have not looked back.

According to the ministry's estimates, Japanese banks' share of medium- and long-term lending in the Euromarkets in 1980 was 8.6 percent — a sharp contraction from the 20 percent or so the Japanese banks had won in 1979. It increased modestly to about 9½ percent in 1981. And then it rocketed to more than 16 percent in the first three months of this year, and even further to 22 percent by midsummer.

The latest estimates of Japanese banks' international lending show little letup in the pace of their conquest of overseas financial markets. The volume of activity in the Euroloan market was at a monthly level of between $12 billion and $13 billion in June and July. It fell off to under $10 billion in August and to under $7 billion in September as the markets wilted after Mexico's repayment problems.

Yet Japanese banks plan to lend $9 billion in the Euromarkets in the six months ending March 1983, according to the framework agreed between the banks and the Ministry of Finance in early October. Monthly lending by Japanese banks of around $1.5 billion means that they will continue to enjoy more than 20 percent of Euromarket business if the volume of lending stays where it is now. If the markets contract further, and the spate of debt reschedulings in progress makes that likely, then the planned lending activity of Japanese banks will give them between 25 percent and 30 percent of Euromarket business by year' end.

Bank of Tokyo, once Japan's monopoly foreign exchange bank, continues to dominate in international lending. This year, it has lead managed almost twice as many loans as its nearest Japanese competitor and the scale of its international lending has taken it into the world's top three international banks. Only Chase Manhattan, which has lead managed around $3 billion this year so far (if loans jointly lead managed by a group of banks are divided equally between them), and Citicorp, with about $2.8 billion, now outrank Bank of Tokyo's $2.6 billion.

On one measure, Bank of Tokyo is now the world's most active bank in the Euromarkets. It has lead managed the greatest number of loans — about 130 — compared with Chase Manhattan's 90 and Citicorp's 115. Bank of Tokyo has occupied the top spot before, in 1979, when it was sole lead manager and agent for the Bank of China's massive $8-billion borrowing. Its eminence then was illusory; the Bank of China never drew on its credit. But there is nothing unreal about the status of Japanese banks today. Following on Bank of Tokyo's steps, the major Japanese banks have made inroads in a market traditionally dominated by American and European banks.

The Industrial Bank of Japan is the second most active Japanese bank in international markets. Its $1.8 billion in loans lead managed this year puts it ahead of such major banks as Morgan Guaranty, Deutsche Bank or Paribas. Fuji Bank, with some $1.3 billion, and Dai-Ichi Kangyo Bank, with $1.25 billion, are not far behind. And three other Japanese banks — the Long-Term Credit Bank, Sumitomo Bank and Mitsubishi Bank — are also in the top 30 international banks when ranked by lead management of syndicated loans.

Eurolending has many attractions for Japanese banks. It is one of the quickest and easiest ways to develop banking relationships with overseas customers, especially with sovereign borrowers and public-sector agencies. It enables Japanese banks to diversify away from the overbanked domestic market, where prospects for growth are poor and competition from securities houses and foreign banks severe and increasing. And it is a lucrative proposition for many Japanese banks, despite the apparently poor return to be had from the low ⅜ percent and ½ percent spreads on many sovereign credits. That is because Japanese banks are, in general, very highly leveraged institutions. A low rate of return on assets can still be a high rate of return on capital if a bank is highly geared.

Japanese banks' foreign competitors in the Euromarkets have been quick to denounce the Japanese appetite for credits with low spreads. They see it as predatory pricing — an attempt to win more lead management mandates by undercutting market rates. There is some truth in the complaint — as newcomers to the business, Japanese banks have been more willing to countenance pricecutting to win market share — but the argument neglects the fact that Japanese banks do not see themselves as offering loss leaders to win customers. They can make handsome profits on low spreads because of their low capital to assets ratios.

Because they can live with low spreads, and have greatly increased their lending, Japanese banks have helped to keep down the margins borrowers must pay while increasing the volume of credit available in the international markets. Their competitors may grumble, but in global recycling terms Japanese banks have helped to grease the wheels of international finance just when dwindling petrodollars and widespread reschedulings threatened to cause an international financial seizure.

In the last year, Japan's commercial banks have even created a new market — syndicated loans denominated in yen. In previous years, there were guidelines that restricted medium- and long-term international loans in yen to specified categories of overseas borrowers. Yen financing linked to Japanese exports was permitted, as was financing for overseas energy projects; supranational financial institutions like the World Bank and the Asian Development Bank were also allowed access to the narrow yen loan market.

In May, however, the guidelines were abandoned and the yen market opened to foreign borrowers generally. In the fiscal half-year to end September, about 30 foreign borrowers were able to raise funds in the new market, with the average borrowing around 10 billion yen ($38 million). Terms in the market are more or less standardized — 10-year maturities are the norm, and loans are almost always priced over Japanese long-term prime rate. A 0.2-percent spread over prime rate is common.

According to the guidelines agreed with the Ministry of Finance, Japanese banks are likely to expand the yen loan market further during the current fiscal half-year, which ends in March 1983. They plan to extend around 580 billion yen in yen loans and buyers' credits, compared with about 500 billion yen in the preceding half-year.

It is an attractive new market for many borrowers. Interest rates are relatively low by comparison with the cost of dollar or sterling funds, and loans can be arranged at a fixed rate of interest. At the current level of the yen in the foreign exchange markets, there is a sizable currency risk for borrowers, who are likely to face the repayment burden of an appreciating yen. For sovereign borrowers interested in a broad portfolio of currencies and for borrowers with yen income that is not a major problem, however, and Japanese banks have been able to line up around 40 borrower mandates for the current half-year.

Yen loans are a new product that is almost exclusively a Japanese bank preserve — one loan, for the French agency Crédit Foncier, was structured to attract the Tokyo branches of foreign banks, but in general foreign banks very rarely participate. It has given Japanese banks an extra competitive edge in arranging multi-currency credits and added to the range of services Japanese banks can offer.

There are now few areas of international banking where a Japanese bank cannot be found among the leaders. The Industrial Bank of Japan and the Long-Term Credit Bank have developed special expertise in the intricacies of project financing; most of the leading banks are putting a greater priority on merchant banking, and Bank of Tokyo Trust Company, the bank's New York subsidiary, is tackling the American mergers and acquisitions market.

Expansion on this scale has meant rapid growth in Japanese banks' overseas branches and offices, especially in China, Canada, Europe outside London, and Australia. Japanese banks have already won about as big a share of Euromarket lending as they are likely to want; the emphasis in Tokyo is now on cracking more domestic markets.

'On-Line' Services Seek to Spread Data Across a Broader Spectrum of Managers

By Peter Grange

LONDON — The high cost of maintaining internal data and controlling its quality has long been a problem for international banks and financial institutions. External data services offering computerized information on internationally syndicated bank loans certainly have the virtue of spreading the cost across a broad spectrum of users. But so far few banks have subscribed to these services.

The two "on-line" systems with data for sale — Caploan (owned by Christian Hemain, editor of Agefi International Financing Review and publisher of the Christian Hemain Loan Files) and Eurodata (a service offered by Interactive Data Corporation and based on the Euromoney Syndicated Loan Guide) can muster only 35 subscribers between them. Eurodata, it is fair to point out, was launched only last July and will have 10 subscribers by the end of the year, according to a company spokesman. Caploan, now in its fifth year, actually is losing subscribers.

At first sight, the low incidence of "on line" monitoring in the syndicated loan market is at odds with the "man the boats" alarm sounded by international bankers each time a major borrower — or bank — is swept toward the rocks. Keeping track of such a crucial sector of international finance is, of course, one of their major concerns. Add to this the loan syndication facilities that both Caploan and Eurodata claim are features of their services, and you might think that bankers would be queuing to plug in. Not so.

Eurodata posts details of 6,000 loans — representing a volume of $780 billion — from a data base reaching back to 1976. The service costs £1,500 a year, subscription fee plus charges based on usage. An average user could expect to pay between £6,000 and £10,000 a year, the company said. Caploan's charges are somewhat higher and Mr. Hemain attributed some of his company's setbacks to this. "But we have learned a lot in five years," he said. "We are in the process of changing our entire system. It will be much more sophisticated than the existing one."

Bankers pointed to the existing simplicities in the data services. It seems they are not so much filling a gap as merely defining the size of it, and many bankers have yet to be convinced that they offer an improvement on their own internal systems. "We rely on the data we collect ourselves," said Mimi Raney of Morgan Guaranty's syndication department. "The people who supply the data systems will admit they miss an awful lot. They in-put from tombstones and press sources but they often cannot show what the final participations were for the banks in any given deal."

A U.S. banker who has used both Caploan and Eurodata underlined the point: "The systems are fine for automating a clerical function in the bank, but with all this stuff — what do you get? The bare tombstone details usually."

As far as data on country debt is concerned, syndicate managers said that most of the work is assembled internally by account officers and economists, helped by up-to-date reports from the bank's international networks. The principal aim of syndication departments when treating the loans of sovereign borrowers is to determine as accurately as possible the amounts allocated to the banks that have participated in similar deals, and thus assess which banks are interested in which kinds of exposure and at which spreads.

The data services have yet to overcome the reluctance of syndicate managers to reveal information on allocations. Ms. Raney expressed a typical view: "On many occasions we have been asked to supply the data services with information — in other words, to fill in their gaps — but we are not prepared to tell them what we have allocated to other banks. So when we are asked to subscribe to a data service, we first ask ourselves: 'How complete is their information?' "

The increasing importance of corporate borrowers in the syndicated bank loan sector has not enhanced the position of the data services. Corporations account for more than half the loans syndicated since the end of 1980, and they are much more reticent about their financial affairs than borrowers in the public sector. Moreover, the syndication of corporate loans is to a large extent dictated by the borrower: when a mandate is awarded, the borrower frequently supplies a list of banks to be included in the syndicate. In such cases the lead manager has less need to research and establish a syndication list of appropriate banks, thus reducing the need for a syndication "tool," be it internal of external.

A difficulty facing banks and data suppliers alike is the doubtful quality of much of the information already at hand. The data services cull the details of loans from disparate sources that may have built in their own errors. In the case of press sources, for example, the details may have changed after they were published. Moreover, the information is "dripped" into a data base by staff who simply do not have the time to check everything, even if they could. One journalist specializing in the field complained that tracking a single deal can take up to 20 telephone calls and the best part of a day. "Bankers are becoming wary of releasing information," he said. "Public sector borrowers are sometimes forthcoming, but imagine trying to get through to, say Greece. It's not easy, and if you succeed, the person you wanted could be away."

But bankers themselves are responsible for some of the misinformation in capital markets. The "league table" mentality, fostered by the specialist press and more-or-less slavishly followed by bankers, has seduced them into boosting their yearly participation figures by including every deal they have been involved in during the course of the year. "They deliberately blur the definitions of what constitutes an international loan so as to climb up the league — they are out to impress clients," said Mr. Hemain. "For example, there are several billion Canadian dollars' worth of domestic loans labelled 'Euro' or international.' All it takes is one foreign name in the syndicate — albeit with Canadian status and Canadian residence — and on goes the label."

Whether or not it is worth trying to retain the purity of definitions for the various categories of syndicated loans must be an open question. A German banker recounted a recent experience: "When we were shown an 'on line' system, we were amused to see that our own bank was credited with international loans which we knew to be purely domestic. Of course, German banks syndicate a lot of deals through Luxembourg and that may have misled the people collecting data."

According to another market source, the misinformation is sometimes compounded by the data services' own inability to distinguish between the negotiation stage of deal, and the post-mandate stage.

Another factor working against the data services' best efforts is the heightened awareness among bankers that any information they volunteer could rebound. Incomplete data notwithstanding, some market analysts have amassed sufficient data to show that a number of banks are startlingly overstretched in relation to their capital assets. The U.S. Securities and Exchange Commission's "Staff Accounting Bulletin No.49" recently was issued to tackle this very problem.

In effect, Bulletin 49 requires any U.S. bank to disclose details of its outstandings in any country where the amount exceeds 1 percent of its holding company's total consolidated outstandings. Whether or not the steps taken by the Securities and Exchange Commission are successful in pinpointing problem areas, they could persuade bankers further that private data gatherers — electronic or print — are not the natural conduits for information which could effect their status.

But what of the data supplied, for want of something better, by Caploan and Eurodata. One drawback is that it ignores private placements. Another is that neither service has been able to surmount the thorny problem posed by "either/or" pricing — where the borrower has the option of pegging the interest rate of a loan to either the London interbank offered rate or to the prime rate of banks in the United States, with the ability to rearrange it when a new rate is fixed.

"It would require a cast of thousands to track a loan during its lifetime," conceded Nigel Bance, editor of the Euromoney Syndication Guide. However, given that "either/or" pricing was introduced some five years ago, it reasonably can be supposed that many syndicated bank loans, particularly Latin American ones, have run toward maturity like a chameleon — Euros changing to domestic and back again — while the original data stood still.

If the major contribution of Caploan and Eurodata has been to further define a wide information gap, they also serve to underline the absence of any service that makes the rubble on its edges useful — useful, that is, to the majority of syndicators. Bare tombstone details, might form a record of sorts, but a criticism of both services is that they do not cover some important clauses in loan agreements. For example, "spreads" are sometimes meaningless without the information that could explain why they are out of line with comparable loans. If such a service could be provided, and if somehow data on participation could be improved, syndication managers might queue to buy. For the moment, they will probably rely on their own imperfect resources if only because the simple — and impure — past will not force out their checkbooks.

EUROMARKETS

Computerized Bond System Progresses From Being 'Barely Usable' to 'Useful'

NUMBERS are not everything in international bond markets but, given the virtual absence of research and analysis, issuers, traders and salesmen appear to have settled for whatever comfort they can extract from computerized data. Presumably, professional investors are happy to go along with the trend.

Kidder, Peabody, in one of its weekly telexed reports, said: "Today the salesperson is equipped with reams of computer printouts incorporating spread sheets, rich/cheap analysis and other measures of relative value. In a bond world which is growing by leaps and bounds these are vital," Kidder allowed, before going on to despair of an educational system that "has created an unlimited supply of trained number crunchers."

"This new breed thrives because of the extra numbers now available to them and the quantum leap in technology which enables those numbers to be produced. The danger is that we may substitute computerized analysis for fundamental thinking." To despair is added poignancy as Kidder's scribe confides that, had he known the course of bond markets over the last four years, he "would have chosen almost any other career."

Over at Warburg Parisbas-A.G. Becker, Walter Imthurn lets it be known that despair is not usually part of his makeup. Nevertheless, right now he too is suffering more than a mite from number crunching. He said: "The salesman has become divorced from his trading desk and is relying more and more on computerized data systems. Every time the system throws him a bone, he wanders off babbling its praises. He forgets to devote his attentions to the trading department's inventory, which needs to be moved.

"It's part of the trader's art now to dodge the useless increases the salesmen turn up. They have become allies of the investor who uses them to punt against the trader ...What has that got to do with sophisticated technology? To me the systems seem nothing more than crutches — and not very good ones, either."

Ranged between Kidder Peabody's "vital ... but" and Mr. Imthurn's "crutches" is a body of opinion that regards computerized bond systems as more or less useful. Asked for an assessment, a U.S. trader said: "If there has been a quantum leap in technology it has jumped clear over my head. Neither Datastream nor Bondspec [the two independently marketed computerized bond systems] are exactly new, but over the years they have progressed from 'barely usable' to 'acceptably useful.'"

In addition to Datastream and Bondspec, there are almost as many in-house computer systems as there are dealing and investment houses. Salomon Brothers has a sophisticated system, as does Merrill Lynch. Kidder, Peabody will be installing a completely new in-house system "within the next six to nine months." At Bank of America, Dick Grahman said: "We are pretty antiquated. I've only just managed to get a couple of Apple micros in there — they don't work." Over at Crédit Suisse First Boston Limited they are hoping to rationalize their systems. They are almost sure one of them is carried on a Wang computer — the other? ... no matter, there is no interface between them anyway.

Nor is anyone swooning over the attractions of either Bondspec or Datastream. Both systems have their champions, although they could hardly be called ardent. Carl Studt of Barclays Bank International said: "Datastream was, we felt, more useful, not least because of the flat-fee way of paying for it. One of the things we wanted to do was to play around with a system to see what use we could make of it. The deciding factor was that taking Bondspec meant writing out a blank check as they charge by time share."

Datastream has been gathering and marketing financial and economic data for almost 20 years. Its immense data base covers a range of markets in the major trading centers around the world and includes statistics on all the major industrialized countries. Of the 400 subscribers to the service, 75 take the international bond service as part of a wider package. A company spokesman said that very few take the bond service on its own.

The prime source of Datastream's bond information is the Association of International Bond Dealers. Prices are collected from market leaders and up-dated daily. The cost of the bond service alone is a flat £11,000 a year; the bond service in conjunction with other parts of the Datastream package costs "about £15,000." Mr. Studt said: "They are very good about suggesting new techniques for using the system. They are always trying."

Bondspec is a computerized service marketed by Interactive Data Corporation, a subsidiary of Chase Manhattan Bank. It is based on the Extel international bonds data base, which supplies details of approximately 4,000 Eurobond, Yankee and Samurai issues, along with information on calls, drawings, conversion terms and floating rate note coupons. In addition, Bondspec gives daily prices and terms of more than 4,400 German domestic issues and has a "user-maintained" facility allowing subscribers to enter details of private placements, certificates of deposit and schulscheine (promissory notes).

Mr. Grahman said: "We use Bondspec for European securities. It's fine for evaluations between Euros and floating rate notes, but it won't suggest swaps. It will tell us when a spread relationship favors unwinding the swap and moving back into the original issue, and that's sometimes useful."

Bondspec has about 30 subscribers in London and a further 20 or so elsewhere, in the United States, the Far East and Continental Europe. A company spokesman said: "Clients are dealing and investment banks. In the bigger banks there are possibly three departments using the system, the new issue people, dealers and salesmen." And the cost? "The average user pays about £10,000 a year."

It would seem that most active users of computerized systems view them with matter-of-factness tinged, perhaps, with circumspection. While numbers sell bonds (in fairness, the systems do allow a degree of useful analysis), the use of systems will surely increase. But the major part of any salesman's own analysis focuses on increased commissions. Left to him, crunched numbers would be the least of it. Look forward to powdered ones.

—PETER GRANGE

The Debtor's Banker, an Ally in Rescheduling

By Vivian Lewis

WHEN A COUNTRY runs into difficulties repaying on time the money it has borrowed from Euro-banks, from multilateral lenders like the World Bank, from foreign governments and government-guaranteed export banks, it often prefers to face its creditors with an ally on its side. And who better to deal with bankers and financiers than a banker of their own?

For the past eight years this simple service, of being a debtor's banker, has been earning fat fees for banks that advise countries about rescheduling, getting their economies in order, and winning the confidence of the market in order to raise new funds.

The leader in the field is called Triad, and groups Kuhn Loeb Lehman, Lazard Frères and SG Warburg, first brought together to help with the 1975 Indonesian rescheduling. A Triad man said: "We act like a good lawyer on the side of the client. It is not a job where we make a lot of friends."

Triad bankers have advised Turkey, Zaire, Gabon, Sri Lanka, Costa Rica, Panama, Togo, Senegal, Guyana and Brazil, in attempts to raise finance, restructure debt or control budgets during a rescheduling, or before the situation has become that bad. The possibility of using merchant bankers was considered even by Poland and Vietnam, but both sides shied away. Similarly, as the Zaire problem became graver and more public, both sides decided that Triad could no longer serve a useful role.

Triad's success has led to imitation. Morgan Grenfell, the London bank, worked on refinancing and rescheduling for Sudan, Uganda, and to an extent for Zimbabwe. Samuel Montagu, the merchant banking arm of Midland Bank, despite the possible conflict of interest with its parent, which is a leading trade finance bank, has signed up Jamaica, the Dominican Republic and Zambia. A halfhearted attempt to represent Bolivia was made by Salomon Brothers. And Goldman, Sachs in New York is in the process of setting up an advisory service for Third World countries headed by a former assistant secretary of State for economic affairs, Robert D. Hormats.

The Triad group, with a staff of 65, has its own former assistant secretary, Arnold Nachmanoff, of Treasury, and a former deputy secretary of State, Richard M. Moose, a former head of the Federal Energy Administration, Frank G. Zarb, and a former British representative to the International Monetary Fund and World Bank, Sir Derek Mitchell. Such manpower does not come cheap, but Triad has worked out that it is charging less for its services than most Wall Street lawyers, who charge $60 to $150 an hour, plus costs, Triad estimates.

Commercial bankers, who are often resentful of Triad bankers' role in representing and advising debtors, love to ask the Triad men if their fees are also going to be rescheduled. The nasty comments come from banks that take an optimistic attitude toward country risks, like Citibank.

Triad bankers feel that much of the criticism they have to put up with is sour grapes. One Lazard partner solemnly insisted, "We are the good guys." He cited the turnaround — "which we are not responsible for, of course" — among Triad clients like Turkey, Indonesia, Gabon. "Even in Senegal the results are fantastic, with the budget executed within its limits for the first time in five years," he said.

Michael H. Coles, a Goldman partner who is head of international, is similarly upbeat: "I believe there is a market for disinterested professional advice. We want it to be preventive rather than curative." But this sort of advice is not always politically palatable. Besides its problems with Zaire and Poland, Triad has run into difficulties with one of the countries its manager is most enthusiastic about, Senegal, whose finance minister, Ousmane Seck, had to resign over unpopular austerity measures even before the International Monetary Fund and the Paris Club had got around to dealing with the country's problems.

The role of the banker-adviser goes beyond coordinating talks with creditors, presenting numbers, making sure that there is coherence in the various negotiations to reschedule public and/or private debt and establish a reform program at home. The adviser also is anxious to be involved in domestic economic management in the debtor country to help prevent a repetition, and it is frequently the debtor's friend in court in trying to persuade banks to lend new money in addition to accepting delayed payment of old.

Advisers like Triad wind up as a sort of ad hoc intermediary whose interests shift between that of the creditors and those of the debtor. Some Triad staff are worried enough about the ambiguity to propose a sort of official consultative committee to take on part of their task for debtor countries.

The trouble with tinkering with the existing ad hoc system is that it risks making rescheduling look like something debtors have a right to, to say nothing of creating another international bureaucracy. The informal situation at present, where relatively disinterested advisers try to cook up a deal, looks like lasting for some time, unless the number of countries unable to repay gets out of hand. In 1982, according to an estimate by Timothy Bevan, chairman of Barclays Bank, 23 countries will be rescheduling debt of around $34.5 billion. He proposes requiring that independent professional advisers be appointed to speed up the generation of valid statistics, the reconciliation of debt information and the negotiation of rescheduling terms.

Worldwide Economic Strains

(Continued from Page 10S)

social spending to qualify for aid from the International Monetary Fund (which says it also could use additional funds) and for better loan terms from commercial banks. Mexico and other countries are at different stages of the process.

There are, however, difficulties with this. When loans to problem countries come due, rather than rolling them over by extending new loans, some commercial banks would rather take the money back to invest more profitably. Also, the austerity measures are often not only unpalatable to the borrowers, but they will limit growth in the years ahead, both for the developing nations and the developed countries that trade with them.

"If the developing countries follow these prescriptions, the result will be more misery in the short run, a burden that is entirely unnecessary," contends Jeffrey Sachs, an economist at Harvard University.

All in all, the problems call for careful handling, from the policies to cure recession, to those aimed at easing structural adjustment, to those geared to expanding trade and keeping the financial system in one piece. Few experts are betting on collapse, but many are quite worried. And all cite other obstacles.

Mr. Ball, for example, is worried about the quality of leadership. "I don't see anyone taking the lead or showing great initiative," he says. "Our leaders are too preoccupied with their own domestic problems rather than international ones."

Others have called for better coordination among the IMF and the world's central banks and commercial banks, partly to keep better track of how much debt has been extended, and to whom.

The propensity is to look for solutions that are as big as the problems. But MIT's Kindleberger puts it more practically: "The important thing is to hang in there. When you're riding on the back of a tiger, the thing is to hang on to the tail, just hang on."

Funds: A Scenario for World 'Belt-Tightening'

(Continued from Page 13S)

commercial banks have loaned to developing countries, or just the $110 billion on loan to Mexico and Brazil, would indeed be catastrophic for the biggest U.S., European and Japanese banks. Their combined capital and reserves are only a fraction of these loans. But that would only happen if these countries flatly repudiate their debts.

Forgoing current interest income on the loans is a different proposition. Yes, the banks would suffer a temporary but substantial drop in earnings. Some might even show losses for several quarters. International lending accounts for roughly half the earnings of the largest U.S. banks, and loans to highly indebted developing countries have been particularly profitable. As Salomon Brothers, the investment banking firm, notes, banks' "net interest income in both Brazil and Argentina soared in 1981, following perceived credit and liquidity concerns in these nation."

Interest income from these countries would no longer "soar," but a temporary decline in bank profits would be manageable. According to the U.S. Country Exposure Lending Survey, at the end of 1981 nine large U.S. banks held 20 percent, or $22 billion, of Mexico's and Brazil's combined commercial bank debt. Assuming that average funding expenses for the banks will be 8 percent in 1983 — that is, that the banks will have to pay about 8 percent to depositors and others to acquire the money they lend out — it would cost these banks $1.76 billion if Mexico and Brazil paid no interest at all in 1983.

The combined net earnings of these nine banks last year totaled $3 billion. Reported earnings for most of these banks were up substantially in the third quarter of this year. Thus even assuming the worst case of no interest payments at all from the two biggest international debtors over the next year, these banks would most likely show a substantial profit.

Less drastic concessions — cutting interest payments in half, for example — could make a substantial contribution to easing the financial squeeze on the most heavily indebted countries without devastating the banks.

Banks have shown great flexibility in providing interest relief to domestic corporations that are on the verge of bankruptcy, when there is no one else to bail them out. And in the case of Chrysler and New York City, Congress made public assistance contingent on parallel sacrifices by the banks. Why should the same not be done for debtor countries? Sacrificing some income now could ultimately be far less painful for the banks than pushing debtor countries — and their political systems — to the point where default seems the only alternative.

The Polish experience should be kept in mind. The Polish government under Edward Gierek, like Mexico under Lopez Portillo, launched a wildly ambitious economic modernization program that it financed by borrowing against future earnings. The borrowed billions were squandered through bureaucratic inefficiency and corruption. When the debts came due before the export earnings had materialized, Gierek struggled desperately to reconcile the competing economic demands of Polish workers and his foreign creditors. He slashed imports, slowed wage increases and sought to raise food prices to free up more foreign exchange for debt servicing. The workers revolted, Solidarity came into being and the Gierek government fell.

There is no reason to believe that Latin American workers will react more passively than the Poles to a tough austerity program. In Mexico, Brazil or Argentina, the government's response may notbe repression of workers but defiance of foreign creditors.

The current debt crisis is manageable, provided all the parties who helped create it are willing to bear part of the cost of resolving it. If, however, the creditor governments and the creditor banks insist on putting the entire burden on debtor countries, the weakest party in this unhappy triangle, they will invite a crisis that may not be manageable.

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ARTS / LEISURE

Bath's Restoration Drama

By David Galloway
International Herald Tribune

BATH, England — Four years ago, Bath's Theatre Royal was tottering toward the bingo-hall destiny of so many of Britain's movie palaces and provincial playhouses. Touring companies avoided its warped stage, and fire-fighting equipment was so antiquated that the local museum sought it for exhibitions.

Bath takes pride in its elegant Georgian architecture, and in the distinction of holding the first royal patent for a theater outside London. Opened in 1805 and rebuilt after a fire in 1862, the Theatre Royal then was unaltered for more than a century. While television eroded box-office receipts and costs of technical improvements skyrocketed, even the most ardent preservationists saw little hope.

In that mood of gloom, a local businessman bought the building in 1979, assigned it to a charitable trust, and announced that the Theatre Royal would again be one of Britain's leading playhouses. Today, when Princess Margaret officially reopens the theater, Jeremy Fry hopes to make good his quixotic promise.

After a year of restoration and stop-and-go financing, the flawless elegance of George Dance's original design has been reclaimed, and technical facilities are among the most advanced in England. The National Theatre has already contracted to present four productions a year in Bath's showplace.

For today's gala opening, the National will presents Paul Scofield in "A Midsummer Night's Dream." With its recurrent motif of magical transformations, Shakespeare's comedy makes its own comment on the evening's significance. And through one of those coincidences that have smiled on Fry's private dream, it is the same play that inaugurated the theater in 1805 and the reopening of 1863.

The man whose vision brought this about seems, at first, an unlikely candidate for the task. "My knowledge of the theater," he says, "was entirely that of the casual spectator." To learn how it worked from the other side of the proscenium, he launched a full-scale season in 1980, and soon showed that with imaginative programming, a provincial theater could reclaim many of its lost patrons.

There were other, less pleasant lessons. A full-scale production of Verdi's "Falstaff" became a workshop version when the overhead grid — built in the days of gaslight to fly canvas scenery — would not support the necessary lighting. Meanwhile, the stage itself was sinking at the rate of a half-inch a year, and there were only two narrow dressing rooms for as many as 70 performers.

It quickly became clear that the backstage area had to be rebuilt and the rest of the house substantially redesigned for safety and comfort. Estimates rose to £3.6 million, and Fry turned to his friend Laurie Marsh, founder of the Classic Cinema chain, which made its millions by carving barn-like movie theaters into streamlined, low-overhead spaces. His know-how quickly reduced the estimate to £1.7 million, most of which has been raised through public and private donations. The Times of London called the project "the bargain of the century."

If he has little theater experience, the 58-year-old Fry knows about taking risks, and renovating historic buildings has long been his most absorbing hobby. Like all members of the Fry chocolate dynasty (no longer a family enterprise), he was born in Bristol but grew up in the West Country. After studies at the London Architectural Association, he moved to Bath in 1955 and bought the derelict Widcombe Manor, which gave him his first lessons in restoration. While his family expanded in the front of the house, a business called Rotork grew in the back.

Rotork first made an international reputation with a computerized system to control the flow of liquids and gases through pipelines. It now has offices and factories in nine countries.

When Rotork required some space, Fry designed his own factory, together with the machinery and fittings. And though the founder never completed his architectural studies, the building won both raves and prizes. Meanwhile, as "therapy," Fry had bought an abandoned hilltop hamlet in southern France. Most hamlet-owners would start by putting the roofs in order, but Fry began by laying miles of water pipe — all controlled by an ingenious system of valves. Many of the interiors of buildings were designed by artists, who were given free studio space. Later, part of Rotork's research team would be installed there. Every summer, Fry adds refinements.

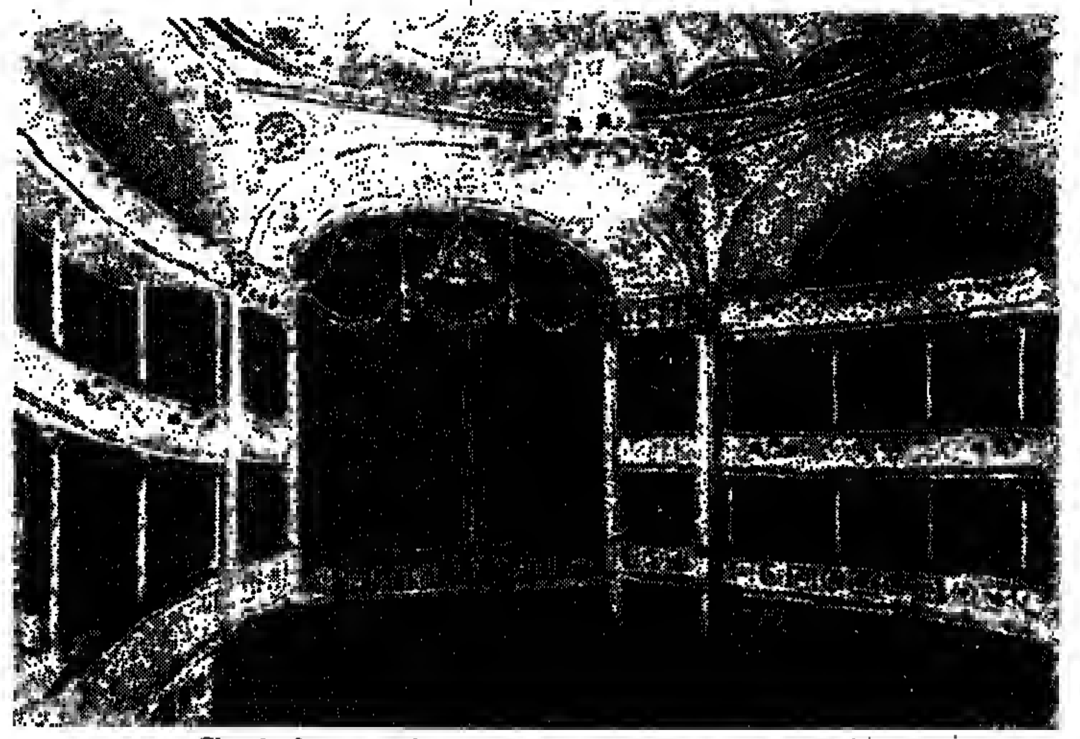
Fry's problem-solving, applied to an animated landing craft, produced Sea Truck, a kind of motorized raft that remains stable in high seas, can move through shallows, and goes 50 miles an hour.

But Fry protests that his success with the Theatre Royal depended on more than a little help from friends. Carl Toms, the theatrical designer, is responsible for the sumptuous interiors. Michael Szell, the queen's fabric designer, produced the moiré that covers the walls and the souvenir programs for today's gala.

In a shakedown cruise to test the new house, Oona Chaplin drew the heavy silk curtains — her gift — for Martin Ticker's production of "Star Quality," Noel Coward's last play. Show-business personalities have endowed dressing rooms and equipment; patrons have paid £100 to £500 for a brass plaque on one of the 860 plush seats.

But for all the opulence and razzle-dazzle, Fry and his associates are convinced that the theater will soon prove commercially viable. The chief administrator, Crispin Raymond, believes that "if you create a wonderful environment, then bring in first-quality productions, the public will support you." With the knowledge that only one regional theater in England survives without subsidy, that may sound like opening-night euphoria. But his friends have learned never to underestimate Fry's talent for transforming a midsummer night's dream into reality.

Jeremy Fry



Sketch of restored Theatre Royal, which reopens today in Bath.

French Physicist Honored

Reuters

AMSTERDAM — The Royal Netherlands Academy of Arts and Sciences Monday presented the Soviet-born French physicist Anatole Abragam with the Lorentz Medal, the Netherlands' highest science prize, for pioneer work in the field of magnetic resonance.

Robert Cohan's Dance Achievement

By Noel Goodwin
International Herald Tribune

LONDON — After rave reviews from Toronto to Vancouver on a tour of Canada this fall, London Contemporary Dance Theatre is back at Sadler's Wells with a question mark around it. This asks who will take over from Robert Cohan as artistic director next summer when he gives up day-to-day control of the company he founded and led for 15 years, bringing American modern dance to Britain and making something different of it.

Cohan's decision came as a surprise to the dance community here, but he points out that he will be 58 next year and running LCDT demands a 14-to-16-hour day. His commitment to it is as strong as ever but he feels the vitality is running out, especially in relation to the hassle of economic problems that beset every performing company. He will, however, continue as an artistic adviser, and, it is hoped, will choreograph more new works at times.

The latest of them is "Chamber Dances," just given at Sadler's Wells, and it epitomizes many of the features that make up his creative achievement. It is tailored to the individual talents of his dancers, showing them to best advantage within the flow of movement; it is dressed simply yet attractively with the same purpose, and it makes adventurous and skillful use of music — in this case a colorful divertimento by Geoffrey Burgon for instrumental sextet.

The dancing this time tells no story, relying instead on the inventive patterns for six pairs of dancers, sometimes a single dancer or pair in contrast to the others, sometimes all together. But always it leads the eye forward and gives it a clear focus of interest. "Chamber Dances" follows more than 20 works Cohan has created for the company here. Some of them reflect the richness of myths and legends he absorbed as a leading dancer of the Martha Graham company in New York.

Cohan was 21 before he became hooked on dance as a wartime GI in London, when he saw Robert Helpmann's "Miracle in the Gorbals" by what was then the Sadler's Wells Ballet. Within a year of going home, and only six months after starting dance classes at the Graham school, Cohan began a career of more than 20 years with the company, frequently as Graham's partner as well as becoming co-director with her.

He was invited to London by Robin Howard, a British businessman and devotee of Graham's dance style, who spent a personal fortune to set up the Contemporary Dance Trust in order to make possible a British counterpart. Cohan moved to London in 1967 as resident artistic director, charged with developing a company of international standard, supported by a vocational school for the training of young dancers of the future.

Within 10 years both elements were flourishing, and the enormous spread of interest in modern dance throughout Britain is to a great extent due to Cohan's leadership. He pioneered plans of university residencies by the company, where training as well as performance was demonstrated and discussed. He brought teachers of distinction to the London Contemporary Dance School, where a new kind of professional dancer emerged who is now much in demand for theater and television or who form new, small groups.

Of the LCDT dancers, usually about 20 at one time and taken from the best the school produces, Cohan says they are "a company based on love." He means the close-knit respect and affection that exists between them at all levels, fostered by his own personality and his staff, who include the former Netherlands Dance Theater star, Lenny Westerdijk, as rehearsal director.

Cohan also encourages creative ideas and talent among the dancers. Choreography is an integral part of their training, with new works shown in regular workshop performances, some of which may be thought good enough for the main repertory. In this way a new generation has already emerged to full professionalism in the work of Siobhan Davies, Richard Alston, Robert North and others (North and Alston are now running Britain's other major modern dance company, Ballet Rambert).

As Robin Howard, the trust's director-general, puts it: "If 'contemporary' is to mean anything, it must mean dance of its own time." It is a complement, not a rival, to the style and traditions of classical ballet, with a crossover of interest and techniques between the two. Robert Cohan's work in Britain has brought about an indigenous style of dance as an art and an entertainment for its own sake. He will be difficult to replace.

'La Balance' Is Tight French Police Thriller

By Thomas Quinn Curtiss
International Herald Tribune

PARIS — One of the best French films of the season and a huge success, in French argot and with an all-French cast — is the work of an American.

Its title is "La Balance" — a gutter term for informing, or "squealing" — and the American who has written and directed it is Bob Swaim, a Californian of 39 who has a degree in anthropology and came to France to study under Claude Lévi-Strauss. Swaim then trained as a movie technician and made his first full-length feature in 1977: "La Nuit de Saint-Germain-des-Prés," a reconstruction of after-dark life in that quarter during the 1950s.

For the preparation of "La Balance," Swaim spent time with the members of the Brigade Territoriale of the French police, and his inspection of their methods in apprehending criminals has gone into his script.

His racy cops-and-killers yarn differs from the ordinary specimen of the school in its avoidance of sentimentality. The police employ a prostitute to extract from her tight-lipped, swollen-eyed pimp information that will lead to their capture of a Paris gangland murderer.

The detective on the case is not secretly in love with the street-girl intermediary, as he might be in screen romances. His duties, like those of an undertaker, are unsavory and his performance of them may shock, but the warning that his practice will destroy his noble soul is omitted.

A wry, tough humor reigns over this man-hunt thriller. It has its full share of violence, gore and torture, but it is not the sensationalism but its cool objectivity that is uncommon, bestowing an authenticity on its incidents and dramatis personae. It sets its milieu background with verve and persuasive detail and there is an abiding rhythm to its traffic. Its happenings and people speak for themselves, and as there is no need of comment it makes none. Richard Berry as the seasoned sleuth, Nathalie Baye as the harassed hooker and Philippe Léotard as her brutish protector fit their roles commendably. Swaim has arrived as an author-director, realizing the material he has gathered with theatrical proficiency.

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"Hecate, Maitresse de la Nuit" is Pascal Jardin's adaptation of a Paul Morand novel, directed by Daniel Schmid.

Morand was a leading light of French letters in the '20s and his slightly salacious volumes of fiction about amour in the many lands he had visited on diplomatic missions were widely translated best-sellers.

"Hecate" is a product of his late years, but its setting, its attitude and its story belong to the between-the-war decades, and to these the screen vision is faithful.

A young French attaché in colonial Morocco meets and becomes passionately enamored of an American adventuress. She surrenders her person to him, but never reveals her secrets. Their ardent affair becomes a scandal due to its perverse nature. He is recalled from his post and she disappears. Later he rises to high rank in diplomacy, but is haunted by memories of their orgies. Even a chance meeting with her some years later fails to dispel her enduring magic.

There is a period romanticism to the fable. The Morand approach is passé; the femme fatale is a stock figure and rings false. In directing, Schmid has settled for the old-fashioned way and gives us 1925 decadence to match the nostalgic decor and costuming.

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The Argentine cineaste, Edgardo Cozarinsky, has assembled fascinating footage of Paris during the Occupation in "La Guerre d'un seul homme." The lone man of the title is the German author Ernst Jünger, who arrived on military duty when the French capital fell to Hitler. His first surprise was to find that during the exodus all of his prewar French acquaintances were out of town. During his sojourn he kept a journal and excerpts from this are read while we have glimpses of the city under enemy rule. Cozarinsky does not stress the cruel irony of the situation, but it is there.

When hundreds of Parisians were being rounded up to be deported to extermination camps he wrote of the hues of canvases, summer foliage and encounters with artistic collaborationists. Faced with unpleasant realities despite his ivory tower attitude, he was in a dither. He was amazed to see hatred in French eyes or the pleased expression on his barber's face when he was giving him his last haircut in France. He took in the museums and exhibitions, dined at Maxim's and called, apparently uninvited, on Picasso. His insensivity, real or pretended, disqualifies him as a reliable witness and he emerges against the backdrop of catastrophes as a caricature of an affected dilettante come to Paris in unwelcome uniform.

BUSINESS BRIEFS

Metallgesellschaft to Omit Dividend

FRANKFURT (Reuters) — Metallgesellschaft will pay no dividend on results for the business year that ended Sept. 30, the company said Monday after having warned stockholders in April that it could not rule out such a move.

The company paid 4 Deutsche marks ($1.60) a share on 1980-81 earnings and 6 DM the previous year. Metallgesellschaft is to report provisional results for 1981-82 later this week.

Pratt & Whitney Strike Voted Down

HARTFORD, Connecticut (UPI) — Machinists at Pratt & Whitney Aircraft reported to work Monday after having voted down, for the third time in five years, a union strike call.

Union workers, voting Sunday, rejected the company's final contract offer 6,469 to 2,282. But only 3,882 agreed to strike — less than the two-thirds needed for a walkout.

The failure of the strike vote was considered de facto acceptance of the new three-year contract. The terms included an average wage increase of 19.6 percent over three years. Pratt & Whitney is a division of United Technologies.

Saudis to Sign New LPG Contracts

NICOSIA (AP) — Saudi Arabia is about to sign long-term contracts for the sale of ten million tons a year of liquified petroleum gas, the Middle East Economic Survey reported Monday.

The LPG will be sold to 45 customers, divided roughly 50-50 between Far Eastern buyers, mainly Japanese, and Western, mainly European, Abdullah Taher, a Saudi minister of state and governor of Petromin, the state oil company, said. He said the contracts will start Jan. 1 and last five to eight years.

The price will be calculated under a new formula pegged at 85 percent full hm parity with the price of Arabian light crude oil, Mr. Taher said. MEES calculated that this would result in an initial price of $234 a ton, compared with $244 now.

U.S. National Daily Exceeds Goals

WASHINGTON (WP) — After 10 weeks of publication, Gannett's national daily newspaper, USA Today, has nearly doubled its circulation goals, according to Gannett's chairman, Allen H. Neuharth.

USA Today's paid circulation averaged 362,879 for the week that ended Nov. 19, far ahead of Gannett's target of 200,000 by the year's end, Mr. Neuharth said Sunday. He said advertising was also well ahead of plan, but more than 40 percent of the display ads were being given away to advertisers who signed long-term contracts.

France Denies More Credit Needed

PARIS (Reuters) — A senior Finance Ministry official said Monday that a newspaper report suggesting that France must raise another international credit to support the franc was pure speculation.

The Paris-based daily Le Monde also said the $4-billion credit that France raised in October, of which $1.3 billion has been drawn down, may be used up rapidly.

The sources noted that France's current account deficit was likely almost to double, to about 80 billion francs ($11.26 billion) in 1982. But the Finance Ministry official, though agreeing with a weekend statement by a ministry spokesman that France would draw down the total credit, said it was not certain that all of it would be used.

Rizzoli Directors Order Group Sold

MILAN (Reuters) — La Centrale Finanziaria Generale has been given a written mandate to sell the Rizzoli publishing group, in which it has a 40-percent stake, a spokesman for Centrale said Monday.

Centrale is 47.56-percent owned by the Nuovo Banco Ambrosiano, set up after the old Banco Ambrosiano went into receivership, and has been under pressure from the bank's new owners to divest itself of its publishing interests.

The New York Times

President William F.X. Grubb, right, and Dave Johnson, an engineer, at the Imagic plant.

Profit in a Crowded Field Is Name of Game at Imagic

By Thomas C. Hayes
New York Times Service

LOS ANGELES — Some day in mid-December, Imagic Inc. will come to Wall Street, the first public company born out of the video game explosion.

Formed in 1981 by executives and game designers who defected from the two industry leaders, Mattel and Warner Communications' Atari, Imagic has recorded one of the brightest starts of any new company in the short but volatile history of Silicon Valley.

Sales in Imagic's first full fiscal year, which ends in March, could exceed $75 million. Two of its video games, Demon Attack and Atlantis, are ranked 8th and 12th, respectively, on a list of the best-selling cartridges. The company, headquartered in Los Gatos near San Jose, already is highly profitable.

A few of the 15 competitors in the business already have faltered badly, but Imagic's financial backers and some industry watchers argue that good management and talented designers have given it an edge over most of the competition.

"Imagic is the best put-together new company in the field," said Arnie Katz, editor of Electronic Games, a trade publication. "They have everything going for them."

Such views have stirred some concern that Imagic's stock price could soar — and then plummet — soon after it reaches the market. Brokerage houses reported an unusually large number of requests for copies of Imagic's preliminary prospectus, filed Nov. 4 with the Securities and Exchange Commission.

Lee Isgur, an entertainment industry analyst with Paine Webber Mitchell Hutchins, said that he anticipated something similar to the spectacular price jumps and slides that followed the initial offerings of Genentech, a bioengineering concern, and Apple Computer.

"It's the most talked-about new issue now," Mr. Isgur said, "and I think it's going to get too strong a reception."

Although many skeptics predict the video game industry will be short-lived, the consensus of those economists and analysts who believe it will endure is that annual sales for hardware and cartridges combined will reach $5 billion in 1985 from the $2 billion expected this year.

That boom, if it occurs, will come in the midst of rough competition and constant waves of innovations, analysts say.

Imagic's prospects are difficult to gauge. William F.X. Grubb, Imagic's president, predicted "we could be a $500 million company in 1985" if total video game sales reached $5 billion. Imagic currently makes seven games for Atari units and four for Mattel.

Jeanette Garretty, a Bank of America economist, said that because Atari and Mattel account for more than 80 percent of current video game sales, "the question facing a company like Imagic is whether they can acquire a hefty market share in the next few years, before the growth rate declines."

Technology advances could broaden the public's appetite for games far beyond the current largest market, which is boys aged 8 to 18, according to Mr. Isgur. But the introduction of new playing equipment will greatly complicate Imagic's manufacturing process, Mr. Isgur cautioned, if it wanted to adapt games to the new equipment.

Imagic earned $6.1 million, or 43 cents a share, on

(Continued on Page 19, Col. 5)

Grim Outlook for Jobs Presented by Feldstein

Quick Cures Are Rejected

Compiled by Our Staff From Dispatches

WASHINGTON — President Reagan's chief economist, Martin Feldstein, said Monday that it will take five or six years of slow, steady economic growth to bring unemployment down to 1980 levels without triggering a new wave of inflation.

But Mr. Feldstein, chairman of the president's Council of Economic Advisers, warned that a deficit-swelling jobs program or congressional pressure on the Federal Reserve System to artificially reduce interest rates further by greatly expanding the money growth could rekindle inflation and threaten economic recovery.

"The economy is still in the ambiguous bottoming-out range of the business cycle," he told a Washington Press Club breakfast. But "the preconditions for a sound recovery — including lower interest rates and a significant growth of the real money stock — make the current outlook far better than the outlook was a year ago, or even six months ago."

Mr. Feldstein cautioned that the federal budget deficit currently projected at between $150 billion and $200 billion for the next several years will have an adverse effect on the economy and will dampen the recovery the administration is expecting next year.

He said the administration's goal should be to bring the deficit down to 1 percent of gross national product by the late 1980s from its current level of 4 to 5 percent of GNP.

Senate Republican leader Howard Baker of Tennessee said Sunday that Congress is not likely to make any more large reductions in domestic or military spending and that the onus is on the Federal Reserve to revive the economy by cutting interest rates further.

"No series of public employment programs or other government activities can begin to create more than 15 million additional jobs during the next half dozen years," Mr. Feldstein argued. "Only a sustained economic recovery can eliminate the cyclical bulge in unemployment."

AP

Martin Feldstein

He said the the "moderate" economic recovery the administration still foresees should by itself bring the jobless rate down from its present 10.4 percent to between 6 percent and 7 percent within 5 or 6 years. The last time the unemployment rate was below 7 percent occurred in April 1980.

But Mr. Feldstein added that the administration still would have to work on programs to reduce the 6 percent to 7 percent "structural" unemployment that would remain. Much of this unemployment involves youth, people without job skills and skilled workers in industries whose jobs are disappearing.

Mr. Feldstein, who previously had opposed Mr. Reagan's plan to increase the federal gasoline tax by five cents a gallon to pay for road and bridge repair, said Monday that he supported the plan, though it should not be seen as a job creation program.

■ Flat Spending Forecast

The Conference Board said Monday in its quarterly survey that capital spending by U.S. manufacturers should remain flat in 1983, Reuters reported from New York.

With profits down sharply in 1982 and markets depressed, there should be no near-term strength in capital investment, a Conference Board official said. She said capital investment in 1983 in manufacturing and nonpetroleum industries would remain weak and only petroleum manufacturers expect a sharp rebound in investment.

But Orders For Tools Up

New York Times Service

NEW YORK — New orders for machine tools by U.S. manufacturers rose 37 percent in October, to $119.2 million, from September's level, the National Machine Tool Builders Association said Monday.

Tool shipments, however, fell 27 percent in October, to $200.7 million, the association said.

The level of machine tool orders is regarded as an important barometer of the well-being of heavy industries. Orders and shipments have been in a steep decline since early 1981, when orders exceeded $400 million a month.

Although a large part of the increased orders in October resulted from a jump in orders from foreign companies, James A. Gray, president of the association, said he was "reasonably encouraged" by the smaller month-to-month increase in orders from U.S. companies.

The increases appear to reflect recent indications of corporate profits stabilizing and increasing confidence in the manufacturing sector, he said.

Analysts, however, said they are not expecting much improvement in machine tool orders this year because factory use remains low. The Federal Reserve has reported that factory use declined to 68.4 percent in October, the lowest level since the government began keeping such records in 1948.

Mitchell Quain of Werthheim & Co. said he did not expect a strong recovery among machine tool manufacturers until the factory use rate returns to about 80 percent. He added that he does foresees little improvement in machine tool orders until mid-1983, with shipments remaining flat until 1984.

■ Output Increase Revised

The Labor Department revised the third quarter increase in productivity in the U.S. nonfarm business sector to 4 percent at an annual rate from a preliminary estimate of 3.6 percent, Reuters reported from Washington.

Despite the third straight quarterly increase, nonfarm productivity was only 0.4 percent higher than during the 1981 third quarter.

U.S. M-1 Grows By $2.8 Billion

Compiled by Our Staff From Dispatches

NEW YORK — The basic measure of the U.S. money supply, M-1, grew by $2.8 billion to $476 billion in the week ended Nov. 17, the Federal Reserve reported Monday.

The surge was much greater than expected. Analysts had said they expected an increase of from $500 million to $1 billion in M-1, which measures cash and money in checking accounts.

In the last three months, the basic money supply has grown at annual rates of 10.4 percent, 14 percent and 20.1 percent.

Prices Ease 4.51 Points on NYSE

Compiled by Our Staff From Dispatches

NEW YORK — Prices on the New York Stock Exchange closed lower Monday after seesawing higher and lower throughout the day. Trading was relatively slow as investors moved away from the market ahead of the money supply figures.

The Dow Jones industrial average was ahead as much as 3.5 points during morning trading, dropped about 10.5 points during the afternoon and then closed off 4.51 points at 1002.85.

Declines led advances, by a margin of three to two, and volume rose to some 61 million shares from 38.81 million Friday, the slowest session in four months.

Analysts said the market was under some pressure from the weekly money supply figures, due out after the close. Also weighing on the market is the Treasury Department's growing financing needs. The Treasury auctioned $11.6 billion of bills Monday and was scheduled to sell $8 billion of bills Tuesday, a larger than expected sale.

Analysts said the government's heavy financing schedule, combined with an increase in the M-1 measure of the money supply, could place upward pressure on interest rates.

Technology, oil and aerospace stocks were among the weakest issues while precious metal stocks rose, reflecting the sharp increase in the price of gold.

Among active blue chip stocks, volume leader Exxon slipped ¼ to 28, General Motors gained 1¼ to 59, IBM fell ⅜ to 82½ and ATT dropped ⅝ to 59¼.

Warner Communications dropped 2¼ to 57¼ in heavy trading. The company's assistant treasurer was convicted over the weekend for his part in a fraudulent scheme involving Warner's purchase of stock in the Westchester Premiere Theater.

Pöhl Sees Continuing Decline in U.S. Rates

By Judy Yablonky
International Herald Tribune

PARIS — Karl Otto Pöhl, president of the Bundesbank, cautiously predicted Monday that U.S. interest rates would continue to fall.

"I think there is a good chance that a further decline in U.S. interest rates is to be expected," he said, citing the success of the U.S. government in bringing inflation down and in curbing inflationary expectations as reasons for his optimism.

But the West German central banker warned that if U.S. interest rates were to rise in 1983, the result would be "disaster" for to the world economy.

The world's economic recovery is dependent upon lower interest rates throughout the world, especially in the United States, Mr. Pöhl said, delivering a paper at a foreign exchange conference sponsored by the International Herald Tribune and Forex Research.

He forecast that U.S. interest rates, which were at 12 percent last year, may go as low as 5 or 6 percent this year. The federal funds rate, which banks charge one another for overnight loans, was around 8¾ percent Monday.

He called the large U.S. budget deficit — which has been forecast at up to $200 billion for fiscal 1983 — "the main obstacle to a further decline in interest rates."

If the Reagan administration were able to reduce this budget deficit, Mr. Pöhl said that he would be even more optimistic on the international monetary outlook.

But the burden was not only on the United States, but also on other countries "to play their part in improving the stability of their currencies at home and abroad and permitting their domestic interest rates to come down," he said.

Lower interest rates could be the "trigger" to revive the world's economies, he said, and would ease the economic problems of developing countries by lowering their interest payments on debts, thereby decreasing their balance of payments deficits.

Mr. Pöhl said that high interest rates also have contributed to volatile exchange rates.

He implied there was no logical reason for the strength of the dollar. "The strong performance of the dollar was — and I speak in the past after seeing the rate this morning — the more spectacular because it contrasts with the perception of a less than perfect policy mix in the United States as between fiscal and monetary policy."

Mr. Pöhl said the dollar's strength — "some would say the over-valuation" — against other currencies and in real terms affects the trade and current account of the United States.

The strength of the dollar has been a factor in the expansion of the U.S. trade deficit to what is expected to reach a record high this year — it was $35.1 billion for the 10 months of 1982.

Mr. Pöhl cited Deputy U.S. Treasury Secretary Timothy NeNamar's estimation that the 1983 trade deficit could reach $75 billion and statistics by the Organization of Economic Cooperation and Development that put that deficit at $50 billion.

"Of course, like interest rates, current account positions are not the only factors relevant to exchange rate behavior," Mr. Pöhl said. "But, on balance, I can well see reasons for a change in the valuation of major currencies in the period ahead. The recent movements of yen and sterling, and very recently even the dollar, may be indications of such new appraisal of the markets."

He criticized the growing move to protectionist practices. And referring to the increasing use of competitive devaluations, such as Sweden's recent 16-percent devaluation of the krona, he said: "We cannot afford to go down that road, and the major trading nations must set a high example to others."

Dollar Weakens on Forecast Of Record U.S. Trade Deficit

Compiled by Our Staff From Dispatches

LONDON — The dollar eased against leading currencies Monday, softened by the trend toward lower U.S. interest rates and hurt by forecasts of a record U.S. foreign trade deficit this year.

The British pound, which had lost an average 5.5 percent of its value in the past two weeks, rose slightly after two major British clearing banks increased their base lending rates at Friday and the Bank of England endorsed the support for the pound.

The increases in base rates by Barclays Bank to 10 percent and Midland Bank to 10¼ percent — reversing a 14-month downward trend — were followed Monday by 1-point increases in lending rates to 10 percent at Lloyds Bank and National Westminster Bank.

However, the pound remained weak against leading European currencies, finishing at just over 3.99 Deutsche marks in London, down from 4.05 DM Friday.

"We have to face the fact that sterling is no longer a strong currency," commented economist Paul Neild of London stockbrokers Phillips and Drew. "The luster has gone from the pound."

Gold prices, bolstered by the weakening dollar and speculation about another cut in the U.S. discount rate soon, gained $14 to close at $435.50 an ounce in London and $14.50 to $432.00 in Zurich.

Said one Swiss dealer: "It's the weakness of the dollar that is moving the market and talk of another U.S. dollar discount rate cut makes gold more attractive."

The pressure on the dollar started in Tokyo, where the dollar had its ninth straight losing session, closing at 249.55 yen from 250.15 on Friday. At one point, the dollar slumped to a 5½-month low of 246.70 yen.

CURRENCY RATES

Interbank exchange rates for Nov. 29, excluding bank service charges.

	$	£	D.M.	F.F.	It.L.	Gldr.	B.F.	S.F.	D.K.
Amsterdam	2.742	4.40	110.19 *	38.99 *	0.1906	—	5.618 *	128.55 *	31.375 *
Brussels (a)	48.85	78.43	19.6285	6.9095	3.391 *	17.8075	—	22.89	5.5808
Frankfurt	2.4945	4.002	—	35.37 *	1.73 x	90.80 *	5.10 *	116.55 *	28.41 *
London (b)	1.608	—	3.9918	11.2935	2,308.92	4.2938	78.39	3.4245	14.094
Milan	1,444.30	2,312.60	578.40	204.68	—	525.30	29.489	674.54	164.69
New York	—	1.6075	0.4015	0.1422	0.069 *	0.3646	0.0205	0.4665	0.1142
Paris	7.033	11.299	282.75 *	—	4.8855 x	256.50 *	14.409 *	329.68 *	80.45 *
Zurich	2.1342	3.4297	85.825 *	30.36 *	0.148	77.95 *	4.366 *	—	24.24 *
1 ECU	0.9309	0.5793	2.3179	6.5533	1,340.68	2.5544	45.4636	1.9881	8.1498
1 SDR	1.07938	0.673098	2.6872	7.5913	1,554.58	2.9597	52.6872	2.3074	9.4554

Dollar Values

$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$
0.9549	Australian $	1.0473	N.A.	Israeli shekel	—	0.454	Singapore $	2.2027
0.0572	Austrian schilling	17.5025	0.004	Japanese yen	249.55	0.90	S. African rand	1.1112
0.0202	Belgian fin. franc	49.70	3.4259	Kuwaiti dinar	0.2919	0.0014	S. Korean won	746.85
0.8067	Canadian $	1.2397	0.4233	Malay. ringgit	2.3625	0.0085	Spanish peseta	118.145
0.1142	Danish krone	8.76	0.1409	Norw. krone	7.0965	0.1343	Swedish krona	7.4488
0.1834	Finnish mark	5.455	N.A.	Phil. peso	—	0.0247	Taiwan $	40.51
0.014	Greek drachma	71.45	0.0109	Port. escudo	91.75	0.0436	Thai baht	22.975
0.1503	Hong Kong $	6.6565	0.2907	Saudi riyal	3.4408	0.2724	U.A.E. dirham	3.672
1.3555	Irish £	0.7378						

£ Sterling: 1.1853 Irish £.

(a) Commercial franc. (b) Amounts needed to buy one pound. (*) Units of 100. (x) Units of 1,000.

Dow Jones Averages

[illegible]

Standard & Poors Index

[illegible]

Odd-Lot Trading in N.Y.

[illegible]

*Included in the sales figures.

Market Summary, Nov. 29

Market Diaries

	NYSE Close	NYSE Prev.	AMEX Close	AMEX Prev.
Volume	[illegible]	[illegible]	[illegible]	[illegible]
Adv.	[illegible]	[illegible]	[illegible]	[illegible]
Vol. Up	[illegible]	[illegible]	[illegible]	[illegible]
Decl.	[illegible]	[illegible]	[illegible]	[illegible]
Vol. Down	[illegible]	[illegible]	[illegible]	[illegible]
Unch.	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]
New Highs	[illegible]	[illegible]	[illegible]	[illegible]
New lows	[illegible]	[illegible]	[illegible]	[illegible]

AMEX Stock Index

[illegible]

Dow Jones Bond Averages

[illegible]

AMEX Most Actives

[illegible]

NYSE Index

[illegible]

NYSE Most Actives

[illegible]

Monday's NYSE Closing Prices

Tables include the nationwide prices up to the closing on Wall Street.

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls. 100s	High	Low	Quot.	Ch'ge Prev Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

(Continued on Page 20)

EC Study Gloomy On '83 Prospects

Reuters

BRUSSELS — The European Community Commission says there is little or no prospect of any upturn for Western Europe's economy in 1983.

The commission said in a report that European economic problems had reached a point of "exceptional gravity" and that even the commission's most recent forecast for growth of 1.1 percent next year might prove to be too optimistic.

Bankruptcies and unemployment will continue to soar as EC nations enter their fourth straight year of recession, the report said.

The report, which will be studied by Friday EC leaders at summit talks in Copenhagen, calls for strong remedies to reverse the trend.

Britain, West Germany and the Netherlands can afford to make some further cuts in the cost of borrowing in order to aid industry, the commission said. But most other governments must take tougher action to curb public spending, end wage indexation and bring down inflation.

Community officials said that recent falls in interest rates on both sides of the Atlantic had done little to dispel Europe's economic gloom. The officials said that real interest rates — and thus the cost of new investment and new jobs — remained too high to give any real impetus to economic recovery.

The report said that action to cure the deep structural weaknesses in the EC economy must be combined with greater cooperation with the United States and Japan to end the recession in world trade.

In particular, the report urged fresh efforts to reach agreement with Washington and Tokyo on smoothing out fluctuations in interest and exchange rates.

EC officials said community governments still were worried that a rising U.S. budget deficit, putting renewed pressure on borrowing costs, could snuff out hopes of an eventual end to the trade recession.

The report said the one bright spot in the otherwise dismal picture was that inflation was expected to slow further in 1983. Prices rose by 10.7 percent in the last 12 months, but that rate is forecast to fall to 8.8 percent next year.

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Commerzbank Raises 1983 Risk Provisions

Reuters

FRANKFURT — Commerzbank said Monday that it will set aside a record amount in risk provisions against domestic and foreign credit business — more than 500 million Deutsche marks ($200 million) — in 1982. The amount is more than double that set aside in 1981.

"The need to create such substantial risk provisions will mean that the bank must omit its dividend for the third year running, despite an 89-percent increase, to 425 million DM, in the parent bank's partial operating profit in the first 10 months of this year, managing board chairman Walter Seipp said.

Mr. Seipp said at a news conference that the decision to put more than 500 million DM into risk provisions should be seen as an act of strength to clear the boards for next year, with the hope of resuming dividend payments on 1983 earnings.

"We realize that the decision will disappoint many shareholders, but believe that priority must be given to the planned risk provisions," he said.

Commerzbank will use not only its 1982 operating profit to create the provision, but also an extraordinary profit of about 300 million DM arising from the sale and lease-back of the bank's three main buildings in Frankfurt.

But Mr. Seipp added that Commerzbank will also be in a position to build up its hidden reserves by more than 50 million DM.

He had said last March that the bank was confident of being able to resume dividend payments for 1982, but he said Monday that AEG-Telefunken's payments problems, resulting in its application in August for a court-supervised debt reorganization, and the Latin American debt crisis make it impossible.

He said that debt write-offs on AEG would cost Commerzbank slightly more than 100 million DM in 1982.

Mr. Seipp said he did not think Commerzbank's decision to omit its dividend would reflect badly on its international standing, as banks are being measured by their strength to set provisions against credit risks.

Of the Commerzbank group's 39 billion DM of claims abroad, about 10 percent fall on Latin American borrowers, against 4 percent on Comecon countries and 10 percent on developing countries, including Spain and South Korea, Mr. Seipp said. The remainder of the exposure is to industrialized countries, he said.

Mr. Seipp said Commerzbank's bond and share trading operations had a sharp rise in profitability in the first 10 months of this year, while the bank's interest margin had widened to 2.18 percent at the end of October from an average of 1.64 percent in 1981.

He said the margin was averaging about 2 percent through 1982, and he rejected recent criticism by Bundesbank President Karl Otto Pöhl that West German banks have been slow to pass on cuts in official interest rates to their customers.

In other comments, Mr. Seipp said that a further relaxation of monetary policy by major central banks would allow West German capital market rates to fall by one percentage point next year. But he said he did not expect average rates to fall below 7 percent, since the federal budget deficit would continue to act as a deterrent.

W. German Chemicals: Mirrors of Recession

By Alan Wheatley
Reuters

FRANKFURT — Poor results from West Germany's giant chemical companies have underlined how badly the country's economy, for so long the powerhouse of Europe, is being battered by the world recession.

Bayer, Hoechst and BASF, three of the world's biggest chemical companies in terms of sales, saw pretax profits from January through September fall as much as 40 percent. Each has said it will have to cut the dividend paid to shareholders for this year.

The three companies, which sell about 60 percent of their products outside West Germany, all have faced sharp drops in exports since the middle of the year.

Herbert Grünewald, chairman of Bayer and head of the West German chemical industry association, the VCI, said recently that the slump in exports was drastic, especially since there was still no sign of a recovery in the domestic economy.

He said that, apart from the generally depressed state of world markets, the West German industry's latest setback was also the result of price freezes in some European countries, such as France, and adverse foreign exchange rate changes that made oil imports more expensive and exports to Europe less competitive.

Balance of payments deficits in Latin American countries such as Brazil, Argentina and Mexico, hard currency shortages in the Eastern bloc and shrinking oil revenues to OPEC are also eating into sales and profits, Mr. Grünewald said.

BASF reported Friday that its nine-month world profits before taxes fell by 39.8 percent to 667 million Deutsche marks ($266.8 million). Earlier in the week Bayer said its earnings were down 19.8 percent to 765 million DM and Hoechst announced a decline of 23.6 percent to 709 million DM.

Sales throughout the industry fell by 5 percent in the first 10 months, according to the VCI, and the impact of the decline has been felt in employment figures. The number of jobs in the West German chemical industry shrank by 2.3 percent in the first eight months of the year, to 535,600, and Mr. Grünewald said he expected further reductions.

Apart from shrinking markets and rising raw material costs, the industry is battling massive overcapacity in petrochemicals and bulk plastics. The proportion of capacity in use at West German chemical plants has fallen steadily and is now at 65 to 70 percent after running at 70 to 75 percent in the second quarter of this year.

These setbacks come during the worst recession in West Germany's history. A total of 1,002 companies went out of business in September, more than in any month since 1949.

A month earlier, AEG-Telefunken, one of West Germany's largest employers, called in the receivers, saying it could not pay off debts estimated at 7 billion DM. Another leading West German electrics company, Grundig, decided that the only way to combat growing Japanese competition was to sell out to France's state-owned Thomson-Brandt.

West Germany's economic problems are likely to get worse before they get better. The government is forecasting no growth in 1983, though its council of economic advisors is slightly more optimistic, predicting a rise in the gross national product of 1 percent.

The future is at best uncertain for the chemical industry. Mr. Grünewald and the chairman of Hoechst, Rolf Sammet, expect no improvement the rest of this year but hope that a recovery in the United States will make 1983 slightly better.

There is a prospect of even tougher conditions on world markets starting in 1984 or 1985, when the OPEC countries, seeking to diversify, will likely start to bring their own petrochemical capacity on stream.

COMPANY REPORT

Revenue and profits, in millions, are in local currencies unless otherwise indicated.

Britain

Inter'l Thomson Org.

9 Months	1982	1981
Revenue	1,004.	899.5
Profits	44.1	37.4

Full name of company is International Thomson Organisation

The New York Times

The main floor of Bloomingdale's in New York bustled with customers at the beginning of the Christmas shopping season.

Mixed Start Reported For U.S. Holiday Sales

By Isadore Barmash
New York Times Service

NEW YORK — Sales during the first weekend of the 1982 Christmas shopping season were strong in New York, San Francisco, Washington and Cleveland, but failed to reach merchants' hopes in Chicago and Detroit.

The Christmas season usually is considered a make-or-break period for retailers. Friday and Saturday's sales ranged from 3 percent to 12 percent higher than the equivalent 1981 days, retailers in the six cities reported.

In general, year-to-year sales gains of 4 percent or less would mean flat sales, in view of the latest 3.7-percent price rise in department store merchandise.

In Washington, Woodward & Lothrop had a "double-digit" increase in 14 of its 15 stores, said Robert J. Mulligan, the vice chairman. He said there were good results in "pretty much the whole store."

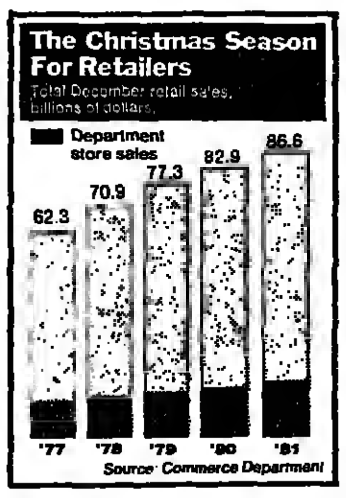
Macy's in New York had "a very strong Friday and Saturday," said Joel I. Sneider, a senior vice president. He said the weekend would show a double-digit gain over last year but declined to specify the exact figure. A wide variety of electronic products were very strong, Mr. Sneider added.

And the turnout at the store's Herald Square Santaland, a key barometer, was said to reflect higher traffic than last year.

In San Francisco, the main I. Magnin store on Union Square had "good crowds on the weekend and we're pleased with the results," said Judy Barnes, the Sunday manager.

But in Detroit, J.L. Hudson, the city's biggest retailer, had "slightly lower" sales on Friday and Saturday than last year, said Thomas G. Payne, president of the 20-unit department store chain.

As a result of long unprofitability, Hudson is closing its downtown store at the end of the year. "In keeping with our quality image, we took pains not to give the store a highly promotional environment," Mr. Payne said, "although in general we are promoting a bit more heavily this year."



NYT

Marshall Field & Co., which is owned by the British B.A.T. Industries' U.S. subsidiary and operates 20 department stores in Chicago, had a 3-percent sales gain on Friday and Saturday, while "we had hoped for 5 or 6 percent," said George P. Kelly, chairman of the Chicago division. Nonetheless, Mr. Kelly thought that the Christmas season would be a "good one for us, since we have enjoyed better business in the last six weeks; people are beginning to unbutton their wallets and pocketbooks."

Higbee's, a group of 11 department stores in Cleveland, had a 7-percent sales gain, although the downtown store did not fare as well as the suburban stores, according to Herbert Strawbridge, its chairman. Television sets and major appliances are beginning to sell again, he said, a good indicator that the economy may be improving.

Other stores reported increased sales for women's accessories, jewelry, handbags and cosmetics. In New York, one of the busiest stores was Fortunoff's jewelry store on Fifth Avenue.

U.S. High Court Gives SEC Power on Options

United Press International

WASHINGTON — The Supreme Court Monday set aside a ruling that the Securities and Exchange Commission did not have the power to regulate trading in the growing market for securities options.

The justices instructed a federal appeals court in Chicago to dismiss the case as moot. Justice Byron White took no part in the court's action on the case.

While the court did not give any explanation of its action, it had been urged to drop the case after Congress approved a bill recently that clarified the SEC's authority to regulate such options. The government had told the court that Congress's action settled the controversy.

Chicago commodity traders hoped the action would bar any new regulations that could stifle the free-wheeling sale of many new types of options and futures.

The lower court had ruled in a suit that the options were not securities legally regulated by the SEC but that they fell instead under the authority of the Commodity Futures Trading Commission.

The case specifically involved so-called standardized securities options, contracts to purchase or sell common stocks at a certain price within a specified time period. They are bought and sold on the Chicago Board Options Exchange, which is regulated primarily by the SEC.

The SEC and the futures trading commission divided up their areas of responsibility in an agreement prompted by the suit, clearing the way for trading in a variety of options and futures contracts.

Four national securities exchanges trade options on more than 360 stocks. During 1981, there were 100 million contract options traded, involving about $40 billion.

The Chicago exchange was organized in 1973.

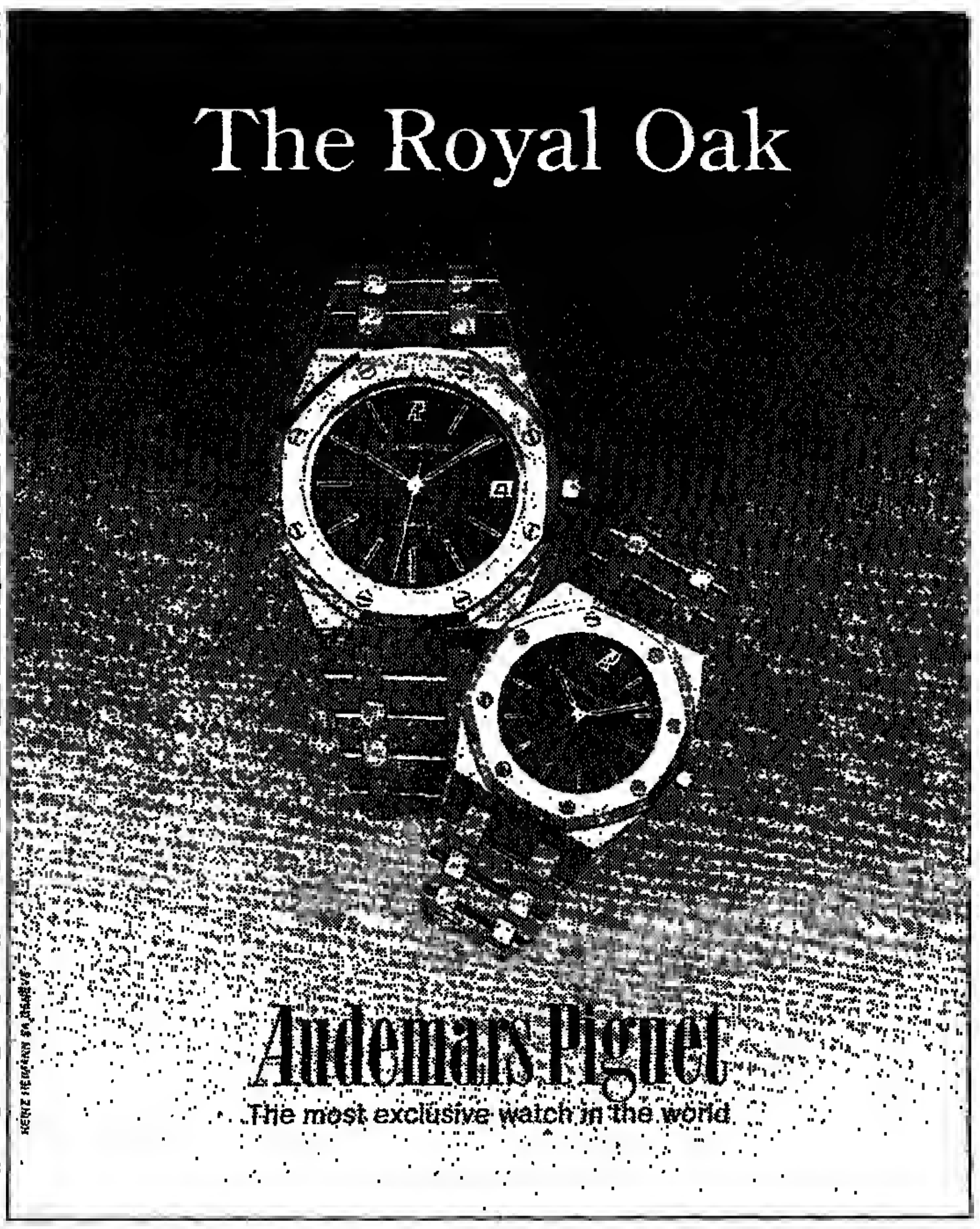
Quick Profit For Imagic

(Continued from Page 17)

$35 million in sales in the six months ended Sept. 30, the company said. Its profit margin has slipped, partly because of a five-month, $10-million advertising campaign that began in September, according to the prospectus. That might have influenced Imagic's decision to issue stock before the fourth-quarter results were in, Mr. Isgur said.

Imagic jumped off to a fast start in part because Mr. Grubb, who had been a marketing vice president for Atari, and two other executives, who came from marketing posts at Atari and Mattel, had credibility with retailers, according to Frank Caufield, a partner at Kleiner Perkins Caufield & Byers. The San Francisco venture capital concern put Imagic in business with a $2 million investment.

Game designers are crucial to video game companies. Imagic has 19 salaried designers and allows them to earn a bonus of up to $1 million if a game rings up more than $50 million at wholesale, which would represent three million to four million copies.



Monday's NYSE Closing Prices

Tables include the nationwide prices up to the closing on Wall Street.

(Continued From Page 18)

Toronto

Sales	Stock	High	Low	Close	Ch'ge
4500	AMCA Int	$19⅝	19	19⅝	+ ⅛
450	Abiti Prce	$18	17¾	18	+ ¼
248	Acklands	$11	11	11	
62085	Agnico E	$13⅝	12⅞	13½	+ ⅞
7007	Alt Energy	$16⅞	16⅜	16¾	+ ⅛
110	Alta Nat	$23½	23½	23½	+ ½
104	Algoma St	$24¼	24¼	24¼	— ¼
400	Andrs WA f	$22⅞	22¼	22¼	— ¼
100	Asbestos	$11½	11½	11½	

Canadian Stock Markets

Nov. 26

Prices in Canadian cents unless marked $.

Sales	Stock	High	Low	Close	Ch'ge
39521	Atco I f	$9	8½	8½	— ⅛
11008	BP Can	$41⅝	41⅛	41⅞	
32116	Bank N S	$32⅜	31¾	31¾	— ¼
600	Baton A f	$9½	9¼	9¼	— ⅛
7600	Bralor Res	$6½	6	6	
5920	Bramalea	$7⅜	7	7	— ¼
1100	Brenda M	$10	9⅞	9⅞	— ½
12079	BCFP	$6⅞	6½	6⅝	— ⅛
76405	BCRIC	255	252	255	
8504	BC Phone	$16¾	16½	16¾	+ ¼
500	Brunswk	$12¼	12¼	12¼	+ ¼
1200	CAE	$9¾	9¾	9¾	
9229	Cad Fry	$8⅝	7¾	8⅛	+ ⅝
3048	Camflo	$10⅞	9⅞	10⅝	+1⅛
4600	C Nor West	$45½	46	45½	+ ½
100	C Packrs	$32⅝	32½	32⅝	+ ⅛
14443	Can Trust	$31¾	31¾	31¾	+ ¾
10476	CI Bk Com	$28¼	27⅝	28¼	+ ¾
26874	CanP Ent	$16⅞	16½	16¾	+ ½
25500	Cdn Nat Res	248	236	245	
371	CTire A f	$46⅝	46⅝	46⅝	— ½
277273	Canusa	$6¼	5⅝	6	
100	Cara	$8¾	8¾	8¾	— ¼
900	Celanese	$5⅞	5⅝	5⅝	— ½
2000	Cherokee	$7	6¾	6¾	— ¼
4800	Con Distrb	$14	14	14	
533	Con Fardy	205	200	205	
4100	CTL Bank	$10½	10½	10½	+ ⅛
15500	Conventrs	$6	5⅝	5⅞	— ⅛
11600	Coseka R	465	455	460	— 6
1800	Conron A	$11¼	11⅛	11¼	— ⅛
300	Crain R	280	280	280	— 8
5280	Czar Res	300	290	290	—10
52146	Daon Dev	205	200	205	+ 1
1300	Daon A f	175	175	175	—10
5581	Denison	$27½	27⅛	27½	+ ½
7450	Develcon	$12⅝	12	12¼	+ ¼
34378	Bickman A f	330	310	325	+32
12700	Bickman B	335	315	325	+25
500	Doman I	325	320	320	
6301	Dofasco A	$33⅝	33⅛	33¾	+ ½
100	Dylex A f	$19	19	19	+ ¼
750	Elcham X	$7¼	7	7¼	+ ¼
1100	Emco	$12½	12½	12½	+ ½
1100	Extndcr f	$13	11¾	12	+ ⅛
2070	FCA Intl	$9⅞	8⅝	8⅝	— ½
4700	C Falcon C	$14¼	14	14¼	+ ¼
650	Fibrp Nik	$43⅝	43⅜	43⅝	+ ¾
1300	Fed Ind A	$11⅛	10⅞	10⅞	— ½
2400	G M Res	300	295	300	
10050	G Distrb A	$19⅛	18⅝	18⅝	— ½
2000	G Distrb w	$11⅞	11⅜	11⅝	— ½
1700	Gibraltar	$9⅞	9⅝	9⅞	+ ⅛
5550	Grandma	325	315	325	+15
5800	Granduc	139	138	138	+14
8250	Gt Pacific	$21	19⅝	20⅝	+1⅝
2900	Greyhnd	$23¼	23⅛	23⅛	— ⅛
2500	Hrding A f	110	100	110	+ 6
4200	Hawker	$12⅝	12¼	12¼	
3980	Hayes D	$9⅞	9½	9½	
2049	H Bay Co	$20	19⅝	19	+ ½
20	Indal	$12⅞	12⅞	12⅞	— ⅛
3	Inland Gas	$14⅝	14½	14½	— ⅛
4400	Inter Pipe	$23¾	23¼	23¼	— ½
1350	Jannock	$6½	6⅜	6½	+ ⅛
2000	Kam Kotla	144	135	140	+19
8300	Kerr Add	$15	15	16	+ ¼
1220	Labatt A	$32⅝	32½	32½	+ ⅛
2228	Lab Min	$48½	48¼	48½	+ ⅛
100	LOnt Cem	$5½	5½	5½	+ ⅛
23500	Lacana	$6⅛	5⅝	6	+ ⅜
804	LL Lac	$25½	24½	25½	+1⅜
20030	Loblaw Co	$9½	9½	9½	+ ⅛
1000	Mclan N X	$10⅝	10⅛	10⅛	+ ½
600	McGraw H	$11¼	10⅞	10⅞	— ½
12317	Est Mirtic	$11⅝	10¾	11⅛	+ ¾
3739	Merland E	$5⅝	5⅝	5⅝	— ⅛
302	Molson A f	$34½	34⅛	34⅛	— ⅛
600	Molson B	$32	31¾	31¾	— ⅛
260	Murphy	$30⅝	30⅝	30⅝	
29585	Noranda	$16⅝	16	16⅛	+ ⅜
16013	Norcen	$31⅝	31	31½	+ ⅛
32670	Nva AltA f	$8⅛	8	8	
1500	Nowsco W	$17½	17⅛	17⅛	— ⅜
593365	Nu-Wst A	228	215	225	+ 9
840	Oakwood	$16½	16½	16½	+ ⅛
611	Oshawa A f	$20½	20¼	20⅛	— ¼
5320	Pamour	$10½	9⅞	10⅛	+ ⅛
225	PanCan P	$91	91	91	+ 1
1300	Pembina	$10⅛	10	10	— ⅛
100	Petro Can	$146½	146½	146½	— ⅛
2157	Phonix Oil	$6⅞	6¾	6¾	— ⅛
341	Pine Point	$27	27	27	
22200	Place GO o	160	150	160	+10
25550	Placer	$16⅞	16⅛	16⅝	+ ¼
600	Provigo	$12	12	12	
400	Ram Petre	$6⅝	6½	6⅝	+ ½
1600	Redpath	$8¼	7⅞	8⅛	
226	Rd Stnhs A	$13⅛	13⅛	13⅛	
9679	Reichhold	$6	6⅛	6	+ ⅛
66	Revn Prp A	118	118	118	— 3
59	Rogers A	$8⅝	8⅝	8⅝	+ ⅛
2616	Roman	$13½	13⅛	13⅛	+ ⅜
100	Rothman	$37⅜	37⅛	37⅛	— ¼
13979	Sceptre	$7½	7¼	7⅝	
180	Scotts f	$7½	7½	7½	
5873	Shell Can	$23½	23⅛	23⅛	— ½
18766	Sherritt	$7	6⅞	6⅞	— ⅛
1600	Sigma	$15½	14⅝	15½	+1½
2600	SSears A f	$7½	7¼	7¼	— ½
33	Slater St	$11½	11⅛	11⅛	— ⅛
16455	Southm	$30	29⅝	29⅝	— ¼
700	St Brodcst	$10½	10½	10½	
7535	Stelco A	$18⅛	18⅛	18⅛	— ⅛
50	Steep R	$5	6	5	
2755	Sulpitro B f	$6½	6⅛	6⅛	— ¼
500	Suncor pr	$24	24	24	
100	Teck Cor A	$7⅝	7⅝	7⅝	+ ¼
6196	Teck B f	$6⅞	6⅝	6⅝	+ ⅛
600	Teledyne	$6	5¾	5⅞	— ¼
2065	Tex Can	$31⅝	31½	31½	
770	Thom N A	$27¼	26⅝	27¼	+ ½
18364	Tor Dm Bk	$37⅝	36⅞	37½	+ ⅜
6600	Traders A f	$12½	12¼	12¼	
7458	Trns Mt	$8⅞	8	8	— ⅜
4000	Trinity Res	$9	8⅛	9	+ ½
10281	TrnAlta UA	$20⅝	20⅛	20½	+ ½
6244	TrCan PL	$26	25⅝	25⅝	
17950	Trimac	$8½	8½	8¼	
29550	Turbo f	$1	78	77	— 2
200	Unicorp A f	$5	5	6	— ¼
9400	Un Carbid	$11¼	11⅛	11⅛	— ½
6776	Union Gas	$10	9⅞	9⅞	— ½
3800	Un Asbstos	$6	5⅝	5⅝	— ¼
4500	U Keno	$14¾	14	14⅝	+ ¾
100	U Siscoe	385	385	385	— 6
25110	Versil A 1	$6¼	5	6	
3700	Vestgron	$16	16	16	
330	Westfort e	115	118	115	+ 6
2000	Westmin	$10⅝	10⅛	19⅝	
1470	Weston	$40⅝	39½	40½	+ ⅛
13990	Wilrov	$15	14⅝	14⅝	+ ⅜
5114	Woodwd A	$14⅝	14⅛	14⅝	+ ¼
1725	Yk Bear	$8¼	8	5½	

Total sales 8,401,650 shares

Montreal

Sales	Stock	High	Low	Close	Ch'ge
4997	Bank Mont	$24⅞	24⅝	24⅝	
1300	Con Cmt	$11¼	11¼	11⅛	— ⅛
1008	DomTxtA	$14½	14½	14½	— ½
1300	Imasco	$28⅞	28½	28½	— ¼
52125	NatBk Cda	$ 8½	8⅝	8⅝	— ⅛
1780	Power Corp	$12¼	12¼	12¼	
500	RollandA	$ 4	4	4	
6211	Royal Bank	$26	25⅝	26	+ ¼
130	RoyTrstco	$18⅞	18⅝	18⅝	— ½

Total Sales 794,861 shares.

Canadian Indexes

Nov. 29

	Noon	Previous
Montreal	312.66	313.91
Toronto	1,819.10	1,813.00

Montreal: Stock Exchange Industrials index. Toronto: TSE 300 index.

Gold Markets

Nov. 29

	A.M.	P.M.	Ch'ge
Hong Kong	426.75	431.00	+19.00
Luxembourg	430.50	—	+18.00
Paris (12.5 kilo)	427.17	428.09	+13.70
Zurich	432.00	432.00	+14.50
London	428.50	434.00	+16.25
New York	434.00	—	+24.75

Official fixings for London, Paris and Luxembourg, opening and closing prices for Hong Kong and Zurich. N.Y. Handy & Harman. U.S. dollars per ounce.

U.S. Futures Prices

Nov. 29

Grains

Food

Financial

Industrials

Metals

Livestock

Stock Indexes

Market Guide

Chicago Board of Trade: Wheat, corn, soybeans, soybean meal, soybean oil, oats, fresh broilers, T-bonds, GNMA, 10-yr T-notes, plywood. Chicago Mercantile Exchange: Cattle, feeder cattle, hogs, pork bellies, lumber, S&P composite index. New York Mercantile Exchange: Maine potatoes, platinum, heating oil. Coffee, Sugar and Cocoa Exchange, New York: Coffee, sugar, cocoa. Cotton Exchange, New York: Orange juice, cotton. New York Comex: Copper, silver, gold. Int'l Monetary Market: T-bills, CD's, Eurodollars, British pound, Canadian dollar, French franc, German mark, Japanese yen, Swiss franc. Kansas City Board of Trade: Value Line. New York Futures Exch.: NYSE composite index.

Commodity Indexes

Cash Prices

Nov. 29

London Commodities

Nov. 29

Paris Commodities

Nov. 29

London Metals

Nov. 29

U.S. Money Rates

Eurocurrency Interest Rates

Nov. 29

Selected Over-the-Counter

Nov. 29

NASDAQ Afternoon Prices

Floating Rate Notes

Closing prices, Nov. 29

Banks

Issuer-Min cpn-Mat.	Coupon	Next	Bid	Asked
Alahli Kuwait 5½-83	11⅞	2-28	99¾	100¼
Allied Irish 6¾-84	13 13/16	3-30	100½	100⅝
Allied Irish 5¼-87	16 9/16	1-6	100¼	100⅝
Allied Irish 5¼-92	10⅝	4-15	97⅝	98
Amex Fin 82-85	10⅝	4-22	100¼	—

Non Banks

Danish National Bank Lowers Discount Rate

The Associated Press

COPENHAGEN — Denmark's National Bank lowered its discount rate from 11 to 10 percent effective Tuesday, the bank announced Monday. It was the first change of the rate for more than two years.

The bank explained the long-awaited action with a reference to the decline of international interest rates and a stabilization of the currency markets during November following a heavy drain on currency reserves as a result of devaluation rumors and strong pressure on the Danish currency in October.

Indonesian Oil Exports Off

United Press International

JAKARTA — Indonesia's crude oil exports for the first eight months of 1982 were down 17.8 percent, at $8.2 billion, from the corresponding 1981 period, the Bank of Indonesia said Monday. But it said liquefied natural gas exports were up 13.2 percent in the same period, to $1.79 billion.

Monday's AMEX Closing Prices

Tables include the nationwide prices up to the closing on Wall Street.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. ... dividend declared after split-up or stock dividend. j— dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k— dividend declared or paid this year, an accumulative issue with dividends in arrears. n— new issue in the past 52 weeks. The high-low range begins with the start of trading. nd— next day delivery. P/E— price-earnings ratio. r— dividend declared or paid in preceding 12 months, plus stock dividend. s— stock split. Dividend begins with date of split. sls— sales. t— dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u— new yearly high. v— trading halted. vi— in bankruptcy or receivership or being reorganized under the Bankruptcy Act, or securities assumed by such companies. wd— when distributed. wi— when issued. ww— with warrants. x— ex-dividend or ex-rights. xdis— ex-distribution. xw— without warrants. y— ex-dividend and sales in full. yld— yield. z— sales in full.

Other Markets

Nov. 29

Closing Prices in local currencies.

Amsterdam · Brussels · Frankfurt · Hong Kong · London · Milan · Paris · Singapore · Sydney · Tokyo · Zurich

New Japanese Computer Is Able to Read Aloud

Reuters

TOKYO — A computer that reads aloud books, newspapers and documents in a female voice has been developed by Japan's state-run telephone company, Nippon Telegraph & Telephone, a company spokesman said Monday.

The spokesman said the computer read Japanese newspapers aloud with 99.5 percent accuracy. He said NT&T had also developed a page-turning robot with fingers so sensitive it could turn even the thin pages of a telephooe directory.

Using a combination of the two, a persoo could have the oews read to him or could interrogate an information retrieval system by telephone, the spokesman said.

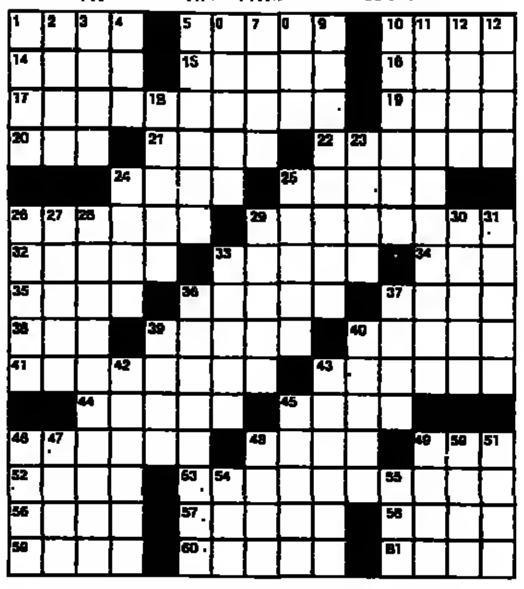
CROSSWORD

ACROSS

1 Like some TV shows
5 Frolic
10 Con man's ploy
14 Algerian city
15 Fla. orange-shipping center
16 Hair or dead follower
17 Folk-tale heroine
19 Being, in Spain
20 One-half and one-half
21 Beetles
22 Redact jointly
24 Preserve with salt
25 Shape by cutting
26 His and hers items
29 Crumbled into particles
32 Religious images
33 Instrument for Yo-Yo Ma
34 Misjudge
35 Pavilion
36 Meat pie
37 Muse of history
38 Stripling
39 Tapestry
40 Tree parts
41 Forces; powers
43 Go by again
44 Rambles
45 Having no additives
46 Treat unfairly
48 Languish
49 Northern —— (apple)
52 Bank transaction
53 Love notes
56 Charitable
57 Fast
58 Belt the cat
59 Joining words
60 Word before alligator
61 Mime

DOWN

1 Word: Comb. form
2 Imaginary curtain
3 Farewell, to Cato
4 Omega
5 Pigments
6 Squirrel's tidbit
7 Half boots
8 B.P.O.E. member
9 Mean; base
10 Garment part
11 Rags-to-riches story
12 Contrary
13 Proper
18 False gods
23 Church calendar
24 Coin
25 Young zebras
26 Kind of search
27 Arctic or Indian
28 Site of underground adventures
29 Plateaus
30 Eponyms for a canal
31 Rubbish
33 Anxieties
36 First in time
37 Priest's vestment
39 Eastern chiefs
40 Flat hat
42 Short songs for groups
43 Skate blade
45 Tune
46 —— Chase
47 Cut of pork
48 Chart
49 Start of a football play
50 Father, in Fontainebleau
51 Belgian river
54 Psychiatrists' org.
55 Mount in Crete

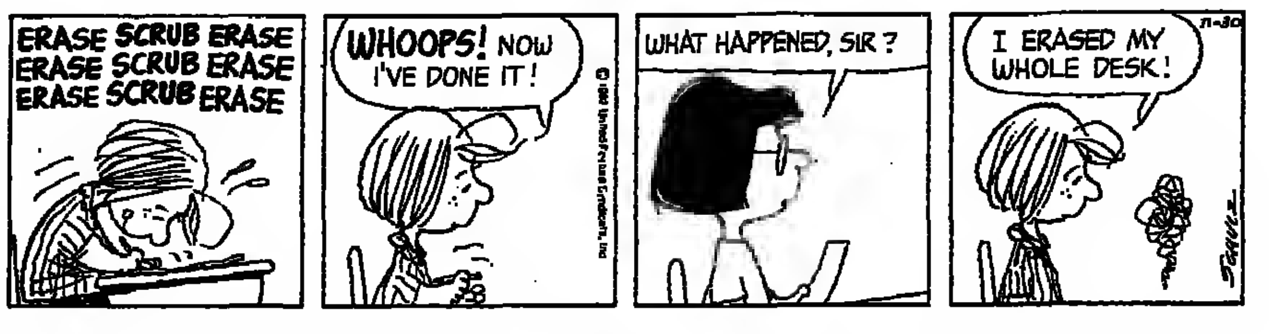


WEATHER

	HIGH C	HIGH F	LOW C	LOW F			HIGH C	HIGH F	LOW C	LOW F	
ALGARVE	14	57	10	50	Fair	LONDON	5	41	0	32	Fair
ALGIERS	15	59	7	45	Cloudy	LOS ANGELES	19	66	12	55	Cloudy
AMSTERDAM	6	43	0	32	Foggy	MADRID	11	52	5	41	Fair
ANKARA	9	48	-10	14	Fair	MANILA	32	90	23	73	Cloudy
ATHENS	19	66	14	57	Overcast	MEXICO CITY	21	70	7	45	Fair
AUCKLAND	—	—	—	—	N.A.	MIAMI	29	84	24	75	Fair
BANGKOK	34	93	24	75	Fair	MILAN	12	54	10	50	Rain
BEIJING	10	50	-2	28	Fair	MONTREAL	-1	30	-12	10	Cloudy
BEIRUT	19	66	11	52	Overcast	MOSCOW	0	32	-1	30	Overcast
BELGRADE	3	37	1	34	Overcast	MUNICH	5	41	3	37	Rain
BERLIN	5	41	3	37	Overcast	NAIROBI	20	68	12	55	Cloudy
BOSTON	13	55	5	41	Rain	NASSAU	27	81	21	70	Fair
BRUSSELS	2	37	1	34	Overcast	NEW DELHI	24	75	6	43	Cloudy
BUCHAREST	12	54	5	41	Overcast	NEW YORK	12	55	5	41	Cloudy
BUDAPEST	9	48	6	43	Overcast	NICE	15	59	11	52	Cloudy
BUENOS AIRES	—	—	—	—	N.A.	OSLO	0	32	-3	27	Foggy
CAIRO	21	70	8	46	Fair	PARIS	5	41	2	36	Overcast
CAPE TOWN	23	73	14	57	Fair	PRAGUE	3	37	3	37	Overcast
CASABLANCA	19	66	14	57	Overcast	REYKJAVIK	2	36	0	32	Snow
CHICAGO	4	39	2	36	Cloudy	RIO DE JANEIRO	30	86	23	73	Stormy
COPENHAGEN	6	43	4	39	Cloudy	ROME	15	59	7	45	Overcast
COSTA DEL SOL	16	61	10	50	Fair	SAO PAULO	27	81	21	70	Overcast
DAMASCUS	13	55	5	41	Overcast	SEOUL	11	52	7	45	Rain
DUBLIN	6	43	0	32	Cloudy	SHANGHAI	10	50	8	46	Overcast
EDINBURGH	5	41	0	32	Cloudy	SINGAPORE	27	81	21	70	Overcast
FLORENCE	11	52	4	39	Fair	STOCKHOLM	5	41	3	37	Cloudy
FRANKFURT	6	43	2	36	Cloudy	SYDNEY	24	75	17	63	Cloudy
GENEVA	6	43	5	41	Overcast	TAIPEI	25	77	20	68	Rain
HARARE	29	84	14	57	Fair	TEL AVIV	20	68	8	46	Fair
HELSINKI	5	41	3	37	Overcast	TOKYO	11	52	6	43	Rain
HONG KONG	21	70	13	55	Fair	TUNIS	18	64	10	50	Fair
HOUSTON	21	70	7	45	Fair	VENICE	13	55	10	50	Overcast
ISTANBUL	14	57	7	45	Cloudy	VIENNA	8	46	2	36	Overcast
JERUSALEM	14	57	7	45	Fair	WARSAW	6	43	3	37	Overcast
LAS PALMAS	21	70	17	63	Fair	WASHINGTON	18	64	5	41	Rain
LIMA	32	81	19	66	Cloudy	ZURICH	5	41	3	37	Overcast
LISBON	15	59	7	45	Fair						

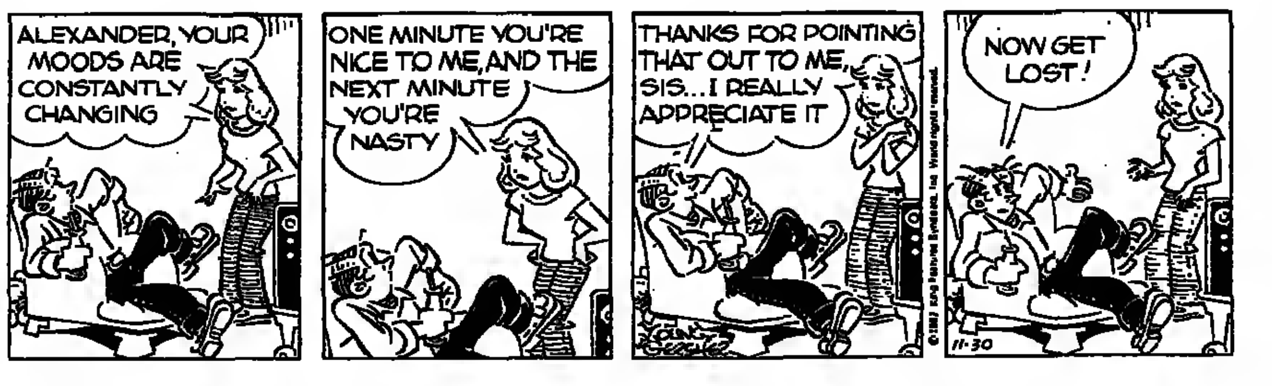
Readings from the previous 24 hours.

PEANUTS

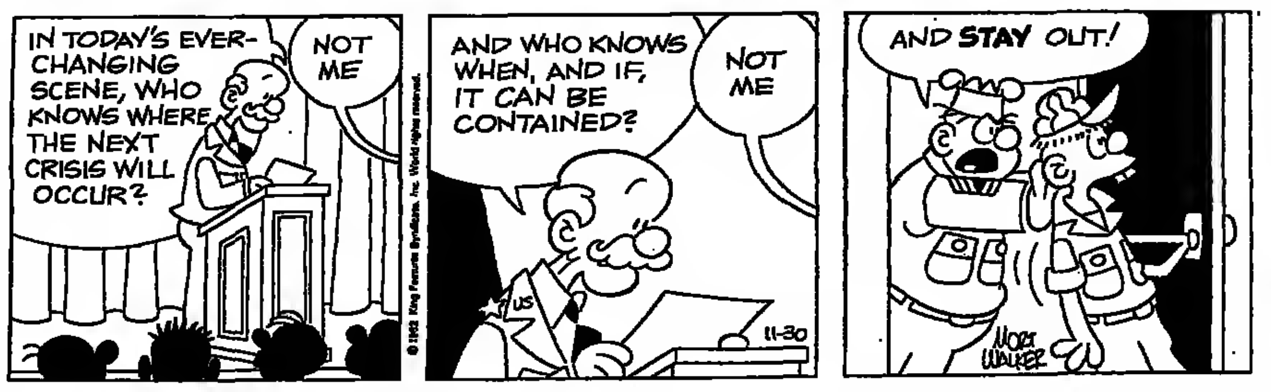


B.C.

BLONDIE



BEETLE BAILEY

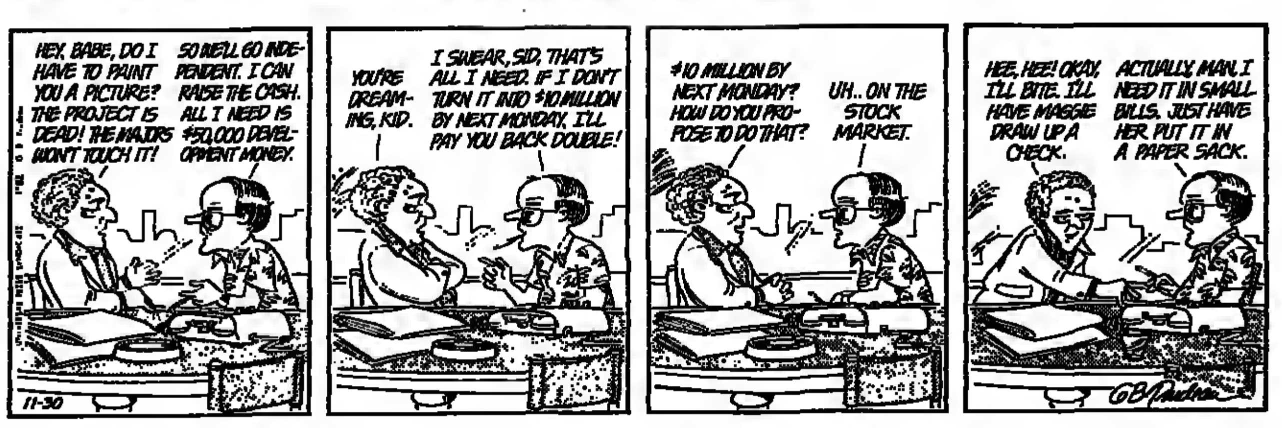


ANDY CAPP

WIZARD of ID

REX MORGAN

DOONESBURY



JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

KAYWG

NIROY

LESTUS

DAYNIT

THE SAILOR TURNED MINISTER WAS SKILLED AT THIS.

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer here:

(Answers tomorrow)

Yesterday's | Jumbles: GASSY BERTH NESTLE DEFACE
Answer: A soft touch—A CARESS

DENNIS THE MENACE

'SEE? I TOLD YOU MR. WILSON COULD FIT INTO THE TUB!'

Imprimé par Offprint, 73 rue de l'Evangile, 75018 Paris

BOOKS

WALL-TO-WALL AMERICA
A Cultural History of Post-Office Murals in the Great Depression
By Karal Ann Marling. Illustrated. 348 pp. $35 (paper, $14.95). University of Minnesota Press, Minneapolis, Minn. 55414.

Reviewed by Le Anne Schreiber

IN June 1939, the Treasury Department's Section of Fine Arts decided to sponsor one of the largest art contests in American history — the 48 States Competition. The goal was to put a mural above the postmaster's door in one small, standard-issue post office lobby in every state.

Artists were encouraged to visit the towns selected for the program, mix with the locals, discuss possible subjects with them, then submit sketches for murals that would, in the words of the section's director, capture "the same feeling I get when I smell a sound, fresh ear of corn." The Dec. 4, 1939, issue of Life magazine ran postage-stamp-size reproductions of the 48 winning sketches; according to the accompanying story, each of the proposed murals represented "the collective taste of the citizens of the community, together with the individual taste of the artist."

"Wall-to-Wall America" is Karal Ann Marling's account of what really happened when dozens of artists, a couple of strong-willed New Deal officials and the citizens of small towns across the United States tried to agree on matters of taste. Not surprisingly, a tangle of ideological, aesthetic and purely local issues caused a crisis in Washington almost every time a mural was painted. What is astounding is the variety and ferocity of the antagonisms that were generated in the process.

Marling, who teaches art history at the University of Minnesota, focused her study on the Section of Fine Arts murals (rather than on the more numerous murals sponsored by the Work Projects Administration's Federal Art Project), because records in the National Archives provide a day-by-day chronicle of what happened when a mural was painted under the section's auspices. The amount of material was prodigious, and rather than organize it into a tidy schema, Marling chose an anecdotal, case-study approach; each chapter is devoted to a different region of the country and includes black-and-white illustrations of the murals discussed. The result is a book that is less rigorously analytical but more entertaining than might be expected.

Drawing on 55 feet worth of files containing letters, clippings, petitions, contracts, sketches of works in progress and crank mail, Marling follows a trail of disaster stretching from Aiken, S.C., to Pacific Grove, Calif. There were three parties to every contretemps. First there were Edward Bruce and Edward Rowan, the director and assistant director of the Section of Fine Arts, who saw the mural program as an opportunity to foster their notion of a politically correct national art. They championed a kind of all-American realism that they hoped would prevail over three heresies — Communist-inspired social realism, Paris-imported modernism and the arch-conservative classicism of academic painting. Then there were the artists, who though eager for section money, were as likely as not to be adherents of one or another of the proscribed heresies. Finally, there was the public, which simply wanted to see easily decipherable, optimistic and flattering images of itself on the wall of its hometown post office.

In Marling's judgment, one of the best murals to emerge from the program was "Mine Rescue," painted by Fletcher Martin for the post office of Kellogg, Idaho. It showed two broad-shouldered men carrying a third man out of a mineshaft on a stretcher. The section loved it; Ed Rowan compared it favorably to the great religious paintings of the Renaissance. The people of Kellogg, however, thought it a "sordid" monstrosity and an insult to "our leading industry." After months of heated correspondence, "Mine Rescue" ended up in the Treasury Department vault, and Fletcher Martin was persuaded to paint another mural, this one depicting two smiling miners who, with their smiling burro, are credited with discovering the mine at Kellogg in 1885.

In Safford, Arizona, the problem was Seymour Fogel's sketch for a mural showing "the Indians of the Southwest doing a traditional ceremonial dance." The people of Safford, whose memories of Indian wars were still vivid, were not persuaded by the artist's explanation that his Indians were not really Geronimo's Apaches but generic symbols of peace and harmony with nature. Besides, section officials in Washington didn't care for this line of argument; it reminded them that the flat, geometric patterns of the mural veered toward the heresy of modernist abstraction.

Patrons of the post office in Kennebunkport, Maine, were offended on several grounds. Elizabeth Tracy, a recent Radcliffe graduate, had insulted their civic pride by painting a beach scene that clearly depicted a cove within the borders of the nearby rival town of Kennebunk. And, by local standards, the women bathers were too "beefy." "The figures represent the Russian peasant type," wrote one resident, "and the entire mural is most objectionable to those opposed to the kind of political philosophy which it undoubtedly represents."

Before its wartime dissolution in 1942, the Section of Fine Arts had commissioned more than 1,100 murals — and been embroiled in about as many disputes. Many of those murals can still be seen; few of them are admired. In her last chapter, Marling concludes that when Americans looked at murals in the Depression, they were looking for "the courage to dream." She might have added that it's hard to take courage from art, or scholarship, whose primary purpose is to please.

Le Anne Schreiber is on the staff of The New York Times.

Solution to Previous Puzzle

D	U	M	P		S	M	O	T	E		T	A	P	A
O	R	A	L		N	O	M	A	D		A	M	E	N
N	A	K	E	D	A	S	A	J	A	Y	B	I	R	D
C	L	O	T	H	I	E	R			A	O	R	T	A
			H	O	L	Y		L	M	N	O			
P	L	O	W	S		T	E	A	K		G	B	S
W	E	A	R		M	O	V	I	E		I	A	M
A	S	B	A	L	D	A	S	A	N	E	A	G	L	E
A	T	O		O	R	D	E	R		N	U	K	E
F	O	R		A	U	R	A		C	A	G	E	Y
			E	D	G	E		C	A	L	L			
C	A	D	R	E		M	O	R	T	I	S	E	S
P	R	O	U	D	A	S	A	P	E	A	C	O	C	K
A	T	O	P		P	U	L	S	E		A	S	T	I
S	E	N	T		T	R	E	E	N		N	O	O	N

Paris Slipping, Guide Says

The Associated Press

LONDON — Paris has lost some of its charm and come closer to being just another noisy and congested city, according to "Holiday Which? Guide to France," of the British Consumers' Association. It acknowledged, however, that the French capital is "still a marvelous place to visit."

CHESS

By Robert Byrne

THE Soviet Union won the 1982 Olympiad in Lucerne, Switzerland, with a 40-12 score after 13 rounds. This was the 14th time in 30 years that the Russians triumphed in the biennial tournament.

One round remains to be played, but their nearest rivals, Czechoslovakia, with 33 points and one game adjourned, and the United States, also with 33 points, are out of contention. Yugoslavia is fourth with 32 points.

In the 13th round, the Soviet team defeated Sweden, 2½-1½; Czechoslovakia beat Canada, 2½-1½, with one game adjourned; the United States won from Israel, 2½-1½, and Yugoslavia downed England, 3-1.

The members of the Soviet team are Anatoly Karpov, Gari Kasparov, Lev Polugayevsky, Aleksandar Belyavsky, Mikhail Tal and Artur Yusupov.

Hungary and Denmark, each with 31 points, are tied for fifth place.

In the eighth round, Karpov, the world champion, led the way with a win over the grandmaster Lajos Portisch as the Soviet team defeated Hungary, 2½-1½.

In place of 8 . . . B-KB4 in the Petrov Defense, the older 8 . . . B-KN5 produced 9 P-B4, N-B3; 10 N-B3, O-O; 11 PxP, KNxP; 12 B-K4, N-B3; 13 BxN, PxB; 14 P-KR3, BxN; 15 QxB with superior pawn structure for White in the game between Ljubomir Ljubojevic and Larry Christiansen in the Phillips & Drew International Tournament in London earlier this year.

Karpov says in Chess Informant, No. 33, that it would have been wrong to play 10 PxP because of 10 . . . NxP. However, it would not be clear who is on top after 11 Q-R4ch, B-Q2; 12 B-QN5, N/7-Q6; 13 N-K5!?

In an earlier Petrov Defense with Portisch, in Turin 1982, Karpov chose 12 N-B3, NxN; 13 PxN; PxP; 14 BxP, QxP; 13 N-B3, NxN; 14 PxN gave better prospects for taking the initiative.

Portisch's main worry was the impending expansion of the white center with 15 P-B4 and 16 P-Q5; he should therefore have played 14 . . . B-B3; 15 B-KB4, Q-Q2 to brand 16 P-Q5? faulty by 16 . . . N-K2. Still, Karpov would have held a slight edge with 16 Q-N3.

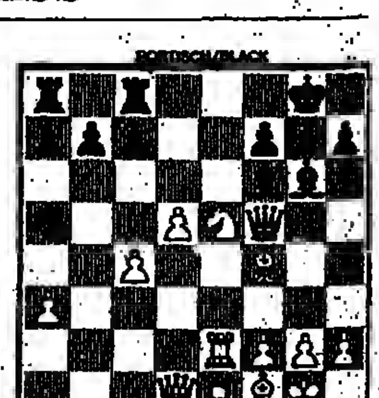
After 19 R/2-K2, Portisch did not like the look of 19 . . . RxR; 20 QxR, but since White could not be stopped from gaining control of the king file anyway, it was better to exchange a pair of rooks rather than hide his head in the sand with 19 . . . R-K1-QB1.

If Portisch was desperate after 20 N-K5, he deserved to be: 20 . . . BxN; 21 RxB gives Black no chance to defend his second rank against a rook incursion; 20 . . . Q-Q1; 21 B-Q2, P-N3; 22 BxN, PxB; 23 P-NB5 puts White virtually a pawn ahead with a powerful center.

Beset by such difficulties, the Hungarian blundered with 20 . . . Q-B4?, falling into Karpov's trap with 21 B-Q2! There was now no way to save the black knight, since 21 . . . P-N3; 22 P-N4!, Q-B7; 23 QxQ, BxQ; 24 BxN, BxN; 25 RxQB still costs Black a piece.

In what looks very much like a bit of petulance, Portisch did not resign but threw his queen with 22 . . . NxN; 23 PxQ. He followed with a few more angry moves before giving up at move 27.

PORTISCH/BLACK



KARPOV/WHITE

Position after 20 . . . Q-B4

PETROV DEFENSE

White Karpov	Black Portisch	White Karpov	Black Portisch
1 P-K4	P-K4	15 P-B4	Q-Q2
2 N-KB3	N-KB3	16 P-Q5	B-B2
3 NxP	P-Q3	17 P-R3	N-R4
4 N-KB3	NxP	18 B-B4	R/B1-K1
5 P-Q4	P-Q4	19 R/2-K2	R/K1-QB1
6 B-Q3	N-QB3	20 N-K5	Q-B4
7 O-O	B-K2	21 B-Q2	NxP
8 R-K1	B-KB4	22 P-N4	NxN
9 P-B4	N-N5	23 PxQ	N-B6ch
10 B-B1	O-O	24 K-N2	B-R4
11 P-QR3	N-QB3	25 Q-R4	N-R5ch
12 PxP	QxP	26 K-R3	RxR
13 N-B3	NxN	27 BxB	Resigns
14 PxN	B-N3		

هكذا من الأصل

SPORTS

Zorn Directs the Seahawks To 16-0 Shutout of Steelers

United Press International

SEATTLE — Jim Zorn passed for 204 yards and one touchdown, and an aroused Seattle defense limited the previously unbeaten Pittsburgh Steelers to just 208 yards in total offense Sunday to lead the Seahawks to a 16-0 upset triumph.

Zorn, completing 14 of 22 passes, threw an 11-yard touchdown strike to Paul Johns late in the third quarter for the only touchdown of the game. Norm Johnson kicked first-half field goals of 35, 48 and 29 yards.

The Steelers were missing the services of star quarterback Terry Bradshaw, who sprained his right shoulder in the first quarter.

The only score of the first quarter came on Johnson's 35-yard field goal, which capped an 82-yard drive in 13 plays.

Capitalizing on Cliff Stoudt's inexperience, the Seahawk secondary picked off two Steeler passes in the second quarter to set up Seattle's other field goals. Stoudt finished the game with 9 completions in 20 attempts for 73 yards and three interceptions. Bradshaw was 5 for 7 for 67 yards before leaving midway through the first quarter.

Saints 23, 49ers 20

In San Francisco, Ken Stabler, a Bay Area favorite before he was traded away three seasons ago, passed for one touchdown and set up two other scores in a driving rain while leading the surprising New Orleans Saints to a 23-20 upset of San Francisco.

Stabler connected on a 10-yard throw to Wayne Wilson the second time the Saints had the ball for a 7-0 lead, then set up later scores by Jimmy Rogers and George Rogers as the Saints posted their third victory against one loss in the strike-abbreviated season. A year ago, during a full 16-game season, they won only four games.

Jimmy Rogers scored on a 2-yard run and George Rogers on a 1-yard blast. The other New Orleans points came on a 27-yard field by Toni Fritsch.

The defending Super Bowl champion 49ers scored on field goals of 40 and 45 yards by Ray Wersching and on Joe Montana passes of 12 yards to Jeff Moore and 16 to Russ Francis in the closing minutes to pull within three points.

Rams 20, Chiefs 14

In Anaheim, California, Wendell Tyler rushed for a pair of touchdowns and LeRoy Irvin turned in a dazzling 63-yard punt return for another score to lead the Los Angeles Rams to a 20-14 victory over Kansas City.

The triumph marked just the second victory in the last 11 games for the Rams, dating to last season. The Chiefs are also 1-3 this year.

Irvin's punt return at 11:06 of the third period turned out to he the winning touchdown. He fielded the ball on one hop on the Ram 37, swept around right end and sprinted untouched into the end zone to make the score 20-7. The Rams then missed the extra point attempt.

Kansas City got a final chance to win when Charles Jackson recovered the third Tyler fumble of the game at the Los Angeles 26 with 3:59 left. But on fourth-and-1, rookie Anthony Hancock bobbled a Steve Fuller pass as he went out of bounds at the 15 and the Rams then ran out the clock.

Chargers 30, Broncos 20

In San Diego, Dan Fouts connected with tight end Kellen Winslow for three touchdowns and passed for more than 300 yards for a record 27th time to lead San Diego to a 30-20 victory over Denver.

San Diego, which trailed early in the first quarter and failed to pull ahead comfortably until late in the game, raised its record to 2-2 while the Broncos fell to 2-2.

Denver opened the scoring at 5:33 of the first quarter after safety Mike Harden picked up a fumble by San Diego's James Brooks in the end zone and carried the ball out 10 yards. The Broncos then marched 65 yards to the Charger 10, setting up Rich Karlis's 29-yard field goal that gave Denver a 3-0 lead.

The Chargers came back on their next possession when Fouts, who completed 27 of 40 passes for 339 yards, hit Charlie Joiner with an 18-yard pass to bring the ball to Denver's 16 as time ran out in the quarter. The Chargers made it 7-3 when Fouts hit Winslow on a 3-yard tonchdown pass.

San Diego's Rolf Benirschke added a 41-yard field goal with 11:14 left in the half to make the score 10-3, and Fouts hit Winslow again from the Denver 28 with 4:56 left to boost the Charger lead to 17-3.

Denver came back in its next possession as DeBerg hit Rick Upchurch with a 15-yard pass to close out the scoring in the half and cut San Diego's lead to 17-10.

NFL Standings

AMERICAN CONFERENCE

	W	L	T	Pct.	PF	PA
Miami	3	0	0	1.000	78	35
NY Jets	3	1	0	.750	111	65
Cincinnati	3	1	0	.750	96	63
Buffalo	3	1	0	.750	64	40
LA Raiders	3	1	0	.750	106	84
Pittsburgh	3	1	0	.750	86	74
San Diego	2	2	0	.500	89	70
Seattle	2	2	0	.500	41	54
Cleveland	2	2	0	.500	66	69
New England	2	2	0	.500	67	75
Kansas City	2	2	0	.500	59	73
Denver	1	3	0	.250	57	91
Houston	1	3	0	.250	68	101
Baltimore	0	4	0	.000	33	105

NATIONAL CONFERENCE

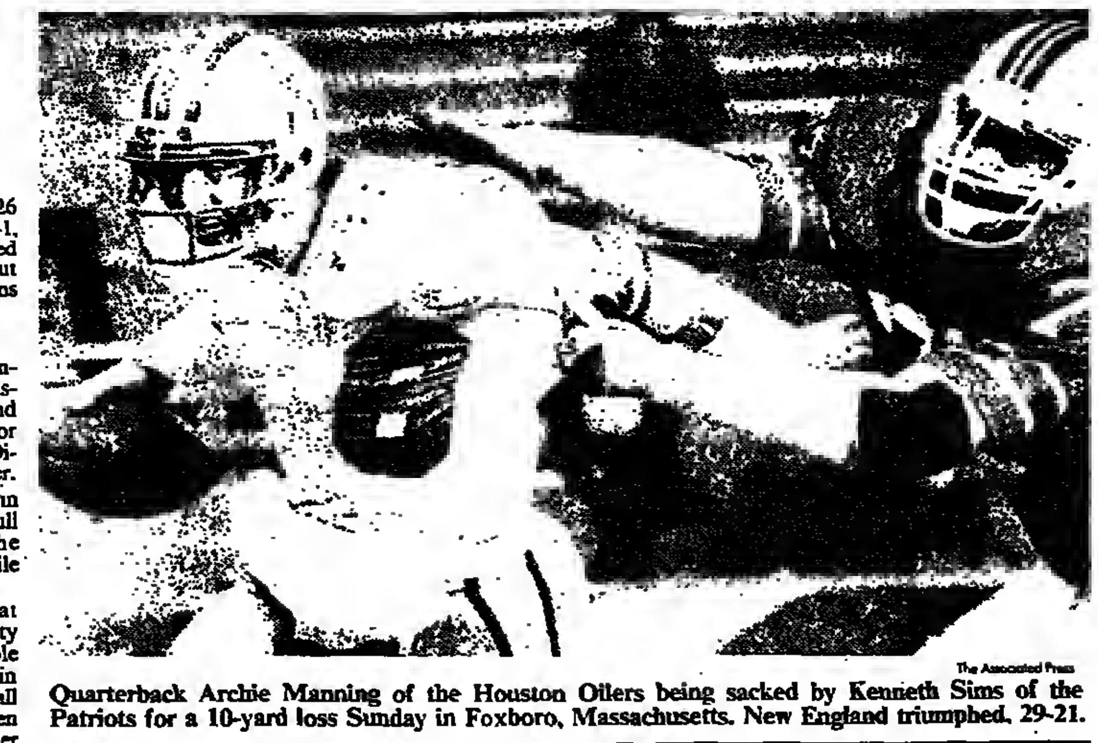
	W	L	T	Pct.	PF	PA
Washington	4	0	0	1.000	98	73
Green Bay	3	0	1	.750	101	44
Dallas	3	1	0	.750	97	46
New Orleans	3	1	0	.750	67	58
Minnesota	3	2	0	.600	81	66
Detroit	2	2	0	.500	59	57
Atlanta	2	2	0	.500	84	92
St. Louis	2	2	0	.500	71	82
San Francisco	1	3	0	.333	89	98
Philadelphia	1	3	0	.250	81	89
NY Giants	1	3	0	.250	43	76
Chicago	1	3	0	.250	37	79
LA Rams	1	3	0	.250	74	102
Tampa Bay	0	3	0	.000	32	52

Sunday's Results

Buffalo 20, Baltimore 0
St. Louis 23, Atlanta 20
Washington 13, Philadelphia 9
New York Jets 15, Green Bay 13
New England 29, Houston 21
Minnesota 35, Chicago 7
Cincinnati 31, Los Angeles Raiders 17
Seattle 16, Pittsburgh 0
New Orleans 23, San Francisco 20
San Diego 30, Denver 20
Los Angeles Rams 20, Kansas City 14

Monday's Game

Miami at Tampa Bay



The Associated Press

Quarterback Archie Manning of the Houston Oilers being sacked by Kenneth Sims of the Patriots for a 10-yard loss Sunday in Foxboro, Massachusetts. New England triumphed, 29-21.

Eskimo Coach Leaves as a Winner

United Press International

TORONTO — In the end, Hugh Campbell succumbed to the simple questions all other Canadian Football League teams and fans bave asked about the Edmonton Eskimos for five years.

"How long could we have kept it going? Could we win it next year or the year after that? The string is still alive but I'm leaving," said the Eskimo coach after Edmonton won an unprecedented fifth consecutive Grey Cup championship Sunday in the freezing rain at Exhibition Stadium.

Warren Moon fired two touchdown passes to wide receiver Brian Kelly, and Dave Cutler kicked four field goals to break two Grey Cup scoring records as the CFL's dynasty team crushed the young Toronto Argonauts, 32-16.

The Eskimos dedicated the game to Campbell, who announced earlier in the season that he would be taking a coaching job with Los Angeles of the new U.S. Football League next year.

He leaves a record of six straight Grey Cup appearances, 81 victories, five ties and 23 losses and 10 straight playoff victories. Sunday's victory was the finest season-long comeback ever in the CFL. Edmonton slumped to 3-5 and the Western Division cellar at mid-season but completed the year with a 10-game winning streak.

Of the 34 Eskimos on the roster for the first championship in 1978, 20 were still playing Sunday when Campbell finished the most successful coaching tenure in league history.

Campbell said that leaving with the team still so firmly in control of the CFL was "confusing" rather than gratifying. He wondered if his ambivalent feelings were similar to those of Tom Wilkinson, who retired last year after quarterhacking Edmonton for 10 years.

"I will never know how long we could have kept it going," Campbell said. "It's the same feeling Wilkie must have had last year. At least if we had lost, I would have had the answer. But we won it and I'm leaving. I think this is the best championship of all the five."

Moon, who had battled the flu all week, accounted for 408 yards in total offense with 21 completions in 33 attempts for 319 yards in the air combined with 91 yards rushing.

Both Moon and his backup, Mike Williams, confirmed that Moon's ability to start had been in question.

"I was put on alert by the coaches," Williams said. "They thought I might have had to dress instead of Warren. I know he was sick because I saw him in agony. I will tell you, I was amazed he played as well as he did."

Moon's two passes to Kelly led the Eskimos to a 20-14 halftime edge. In the second half, the defense kept the CFL's outstanding player, Condredge Holloway, on the run, limiting Toronto only to a safety. The Eskimos offense relied on two Cutler field goals and a one-yard run by Neil Lumsden.

Moon has never been named either to a CFL all-star team. Nor has he won a Schenley award for excellence in the regular season in his five years with Edmonton. He measured his words carefully after the triumph.

"You wonder what you have in do to get some respect," said the 1978 Rose Bowl hero from the University of Washington. "We don't expect everyone to look up to us, but we do deserve some respect. All the stuff in the papers got us really juiced up. We are usually subdued and quiet before a game, but they were so pumped up it was almost scary.

"I didn't feel that well going into the game, but I wasn't going to let that stop me. I just decided to let it all out and give everything I had."

Even McEnroe Agrees French Were Perfect Hosts for Davis Cup

By Neil Amdur
New York Times Service

GRENOBLE, France — The side lineswoman made the call decisively, her right arm outstretched to indicate that Henri Leconte's high backhand volley was wide, if only by inches. The partisan crowd of 14,000 in the Palais des Sports whistled, booed and cheered loudly, but the woman sat resolute, her arm firmly extended for almost a minute until the noise subsided.

The French played the perfect hosts for the 1982 Davis Cup final with the United States, combining fair play on the court — acceptable even to John McEnroe — with tasteful social ceremony.

Last Wednesday, a group of officials and wives from the U.S. Tennis Association toured the Chartreuse liquor distillery in nearby Voiron and enjoyed a pre-Thanksgiving Day meal. The following evening, the French Tennis Federation served cocktails and dinner for U.S. team members and officials at a charming hilltop restaurant, highlighted by a salmon appetizer, carved turkey and Beaujolais nouveau wine.

But the French bospitality and enthusiasm in reaching their first cup final in 49 years did not keep the Americans from winning, 4-1, for the 28th time and the fourth time in the last five years.

It was a significant series in several respects. McEnroe's performance in singles and doubles, on a relatively slow red clay court, indicated that he bas regained the form and fitness of his successful 1981 season after an indecisive, injury-plagued year. Since losing to Ivan Lendl in the semifinals of the U.S. Open last September, McEnroe bas won 24 consecutive singles matches.

"He's playing as well as I've ever seen him play," said Bob Jenkins, the British umpire, who officiated the last two Wimbledon finals, the 1981 United States-Argentina Davis Cup final and McEnroe's opening singles and doubles bere. "He's moving well and thinking well. It's the best I've seen him play since the 1981 final with Borg at Wimbledon."

Overhauling Noah in five long sets in the crucial opening singles match on Friday did not surprise McEnroe. But it may have convinced the 23-year-old pro that he can be as much of a force in the French Open as he has been at Wimbledon, Flushing Meadows or the Masters. In the past, McEnroe felt that winning on clay required more fitness than talent. "That aggravated me mentally," he said, after Saturday's doubles victory had given the Americans an insurmountable 3-0 lead.

McEnroe reached the quarterfinals of the French Open in 1981. But he has yet to win a grand prix clay-court title, even though Arthet Ashe, the U.S. team captain, believes that McEnroe's versatile game is suited to all surfaces.

McEnroe's 26 singles victories (against only three losses) moved him ahead of Bill Tilden and only one behind Ashe for most Davis Cup victories by an American.

Two of McEnroe's singles defeats came against Guillermo Vilas and José-Luis Clerc of Argentina in 1980, when the U.S. team was beaten, 4-1, in Buenos Aires. Insterestingly, the Americans' first match in the 1983 competition is scheduled for March at Argentina, a draw that clearly disturbs McEnroe.

"I was disappointed when I played down there the last time," he said, beaten in four sets by Clerc and five sets by Vilas. "But it's outrageous that we have to play them the first round. They're one of the four best teams in the competition. It's a joke that we have to play them first."

The U.S. draw in 1983 will be focused around slower surfaces, almost exclusively on the road. Even if the Americans are fortunate enough to defeat the Argentines, Italy looms in the second round, Sweden in the semifinals and Czechoslovakia in the finals.

The immediate futures of three other players who were here, Yannick Noah, Leconte and Jimmy Arias, also bear watching.

Although losing to McEnroe, the 22-year-old Noah drew the loudest and longest ovation of any past or present Davis Cup player introduced before Saturday's doubles. In the last year, Noah has improved his world ranking from 12th to 9th; how much further be moves may depend on his willingness to play as consistently inspired in the major championships as he did during what he described as a "trial" of pressure in recent weeks.

Leconte, 19, and Arias, the 18-year-old American, are refreshing newcomers. Arias was on the squad here for the first time, but he did not play, saying it was a "learning experience." Depending on Mayer's fitness and Eliot Teltscher's form, Arias could be Ashe's singles trump card on clay with McEnroe.

McEnroe's Davis Cup role has provoked conflicting opinion in some quarters: Should he be praised consenting in play? Or should he be grateful for the honor of representing his country? One thing is certain: McEnroe's feelings are genuine; he was smiling, animated and relaxed during the closing ceremonies.

"It would be more of an honor to be on the team if we had all the best available players," he said. "But I also think it's an bonor and responsibility to play. I feel the responsibility more than when I started to play. I feel a little burden of carrying the team at times. Obviously, when you win and play tough matches and people get behind you, the pluses outweigh the minuses."

■ Europe vs. Americas

José Higueras of Spain beat Gene Mayer of the United States, 6-3, 4-6, 7-5; Ivan Lendl of Czechoslovakia defeated Andres Gomez of Ecuador, 3-6, 6-3, 6-4, and McEnroe beat Mats Wilander of Sweden, 6-4, 6-2, on Monday, the first day of a $600,000 tennis challenge bere, United Press International reported from Barcelona.

The event consists of 12 matches over three days between four players from Europe and four from North and South America.

No Need for Sunglasses, Darlin'

By Dave Anderson
New York Times Service

HOUSTON — Somebody in the entourage usually has the sunglasses, just in case the fighter needs them. Through the years, most of boxing's most famous gladiators were never ashamed to hide a damaged face behind those sunglasses when they left the arena.

Muhammad Ali, Joe Frazier, Joe Louis, Rocky Marciano, Sugar Ray Robinson, they all slipped on shades at one time or another so they wouldn't look too bad in the newspaper photos. Sugar Ray Leonard, his left eye swollen and shut, even wore sunglasses in the interview area only half an hour after his 14th-round knockout of Thomas Hearns in Las Vegas last year. Cool.

But if ever a boxer needed a pair of sunglasses, Randall (Tex) Cobb did last Friday night.

After 15 rounds of having been battered and butchered by the champion Larry Holmes in their World Boxing Council heavyweight title bout, Cobb's face resembled a puffy purple sunset, especially around his eyes. But when he left the Astrodome, he was wearing his bruises instead of shades. He even had his brown cowboy hat tipped back, as if to make sure everybody saw his face.

Cobb apparently wanted to make sure everybody noticed that the twinkle was still in those blue eyes.

After the final bell, after only one of the three officials had awarded him one round, Cobb yelled to his friends at ringside, "Let's have a party, all right?"

And two hours later, there be was at the promoter Don King's postfight party high in the nearby Astro Village Hotel, his brown cowboy hat still tipped back, his battered brow still unshaded, his blue eyes still twinkling in the slits between the swelling.

Cobb even arrived at the party before Holmes did. And in a way, it was more Cobb's party. Throughout his finest hour, he had been a curious mix of boxing at its best and boxing at its worst.

Cobb had lasted 15 rounds with an unbeaten heavyweight champion. In his 41-0 record with 30 knockouts, Larry Holmes has needed to go 15 rounds to a decision only twice before — with Ken Norton when he won the WBC title in 1978 and with Trevor Berbick early last year. Friday night, Holmes hit Cobb with some right hands that might have knocked the Astrodome down. But none of them knocked Cobb down. The nobility of being courageous. Boxing at its best.

In contrast, Cobb can't box. Despite 18 knockouts in his previous 20-2 record, he really can't punch either; at least not against someone as adroit as Holmes was. What he does best is take a punch. The futility of being a punching bag. Boxing at its worst.

Although he wobbled momentarily a few times, Cobb never appeared about to fall. He never has. When he's asked if he's ever been knocked down, that's the cue for his lady friend, Priscilla Lowe, to say, "Once, by a pickup truck."

He has the best heavyweight chin since George Chuvalo, the Canadian who was never knocked down, not even by the young Joe Frazier, the young George Foreman or the young Muhammad Ali. After his 1972 fight with Ali in Vancouver, Chuvalo waited patiently, his face puffed and purple, for Ali to finish answering questions. At last he had the microphone.

"I just want to say," Chuvalo began quite seriously, "I enjoyed the fight."

Cobb enjoyed the fight, too. On the way out of the ring Friday night, he was smiling and waving to his Texas rooters, who were cheering his exit as if he bad won.

"Luv ya anyway, Tex," one male Texas voice twanged above the din. "Luv ya, Tex."

He'll have Country and Western songs written about him now, boxing's version of Davy Crockett at the Alamo. He was born in Bridge City, not far from Houston, bot be grew up in Abilene, where he was a defensive tackle and guard on the Abilene Christian football team. After he learned karate, he was a kick-boxer and a bouncer in west Texas and New Mexico bars before going to Philadelphia to be tutored by the trainer George Benton.

He also was the boxer who flattened Jon Voight in the recent remake of "The Champ," but Friday night, he was in a fight, not a movie.

When it was over, Cobb, surrounded by young men in black vinyl jackets with "Tex Cobb Security" in gold on the back, burried to pack, burried to his small dressing room off the Houston Oilers' locker room. Soon his cut man, Ed Aliano, emerged.

"They're gonna take about six, seven stitches," Aliano said. "Over his right eye."

But when the door opened and Cobb received visitors, he did not have an icebag pressed to his eyes. And be was not in mourning at having lost his title shot. Instead, be was smiling through that purple sunset of a face. Smiling and wisecracking and laughing in a boarse cackle as be looked up to take questions.

"How did you manage to stay up?" somebody asked.

"I wondered the same thing myself," he said, laughing again.

"Were you talking to him?"

"No, we had some rapid communication," he said, "but it wasn't verbal."

"How about at the start of the last round?"

"Yeah, he told me, 'Nice fight,' and when the fight was over, be told me be couldn't give me another fight because be was only going to have one more fight and then retire."

"Would you want a rematch with him?"

"You got to know, darlin'," he said, laughing. "I'd like to do it now."

"Do you wisb this could've gone 50 rounds like they did years ago?"

"Yeah, back when men were men," he said.

"Was this the toughest fight of your career?"

"No, my fight with Earnie Shavers was tougher," be said of a 1980 eighth-round knockout triumph. "Shavers hit harder. Once you've been in with Shavers, you can take on a freight train. It moves, but it ain't much."

"What was your best round?"

"I had it going into the first round," he said, laughing again, "but then the instructions got in the way. But hey, Shavers was a war, this was a boxing lesson. This was no big deal. This was going 15 rounds but that was no problem. Other than that, this was nothing serious. Just a nice boxing lesson, darlin'."

Just a few punches that bounced off his head, too. But no need for sunglasses, darlin'.

NBA Standings

EASTERN CONFERENCE

Atlantic Division

	W	L	Pct.	GB
Boston	13	2	.867	—
Philadelphia	13	2	.867	—
Washington	7	8	.467	6
New Jersey	7	9	.438	6½
New York	3	10	.231	9
Central Division				
Detroit	10	6	.625	—
Milwaukee	10	6	.625	—
Atlanta	6	7	.462	2½
Chicago	6	10	.375	4
Indiana	6	10	.375	4
Cleveland	2	12	.143	7

WESTERN CONFERENCE

Midwest Division

	W	L	Pct.	GB
Kansas City	8	4	.667	½
San Antonio	11	6	.647	—
Dallas	6	7	.462	3
Denver	7	9	.438	3½
Utah	4	10	.286	5½
Houston	2	12	.143	7½
Pacific Division				
Seattle	14	2	.875	—
Los Angeles	12	3	.800	1½
Phoenix	11	5	.688	3
Portland	8	9	.471	6½
Golden State	4	11	.267	9½
San Diego	3	12	.200	10½

Sunday's Results

Cleveland 118, Kansas City 110 (Huston 21, Wedman 17, Robinson 17; Williams 26, Drew 15, S. Johnson 11)

Boston 124, Milwaukee 109 (Bird 37, Parish 19; Bridgeman 27, Moncrief 21)

Los Angeles 142, Golden State 127 (Abdul-Jabbar 27, Wilkes 21; Williams 26, Smith 18, Free 18)

NHL Standings

WALES CONFERENCE

Patrick Division

	W	L	T	Pts.	GF	GA
NY Islanders	14	9	5	33	105	87
Philadelphia	13	9	3	29	99	82
NY Rangers	12	11	1	25	99	97
Washington	8	9	6	22	81	87
Pittsburgh	8	12	4	20	84	114
New Jersey	4	15	7	15	71	110
Adams Division						
Montreal	15	4	5	35	111	77
Boston	13	7	5	31	93	71
Buffalo	12	8	4	28	102	85
Quebec	11	10	2	24	108	106
Hartford	5	14	3	13	72	107

CAMPBELL CONFERENCE

Norris Division

	W	L	T	Pts.	GF	GA
Chicago	15	3	5	35	102	75
Minnesota	14	8	3	31	110	94
St. Louis	9	13	3	21	87	96
Toronto	4	12	5	13	71	93
Detroit	3	16	6	12	44	113
Smythe Division						
Edmonton	11	9	6	28	124	113
Vancouver	9	10	6	24	92	85
Los Angeles	10	9	3	23	79	81
Winnipeg	10	8	2	22	93	81
Calgary	9	13	4	22	106	106

Sunday's Results

N.Y. Islanders 3, Washington 3 (Bossy (21), Tonelli (11), Gillies (6); Maruk (10), Jarvis (2), Duchesne (4))

Philadelphia 5, Vancouver 5 (Sittler 3 (15), Barber (9), Sinisalo (1); Lanz (2), Hlinka (12), Boldirev (2), Sundstrom (7), Lemay (8))

Edmonton 7, Detroit 5 (Messier 2 (15), Linseman (8), Huddy (5), Kurri (14), Pouzar (5), Hughes (10); Ogrodnick 2 (12), Osborne (4), Huber (5), Larsen (5))

Buffalo 7, N.Y. Rangers 3 (McKegney 2 (10), Ramsey (3), Ramsay (1), Foligno (7), Fairlick (7), Hamel (6); Rogers (12), Hedberg (9), Pavelich (15))

Japanese Swimmers Excel On Day 11 of Asian Games

United Press International

NEW DELHI — Kaori Yanase churned to her fourth gold medal Monday to lead a Japanese gold rush that left her country only four medals short of China in the 9th Asian Games.

All of Japan's five gold medals for the day were earned in the swimming competition, which concluded Monday with Japan winning 21 of the 34 gold medals at stake.

China added two gold medals — in men's diving and in waterpolo, in which its team topped Japan, 8-10, in the final.

At the close of the 11th day of competition — with four days remaining — China had 47 gold medals and Japan 43.

South Korea was in third place with 13.

Yanase, a 15-year-old student, won a pair of gold medals in the 100-meter freestyle and as the anchor of Japan's 4 x 100 medley relay team.

Earlier she had beaten all competitors in the 200-meter freestyle and captured another gold as anchor in the 4 x 100 meter freestyle relay.

Singapore won its first gold medal of the Games when Peng Siong Ang repeated his first-place finish in the Commonwealth Games, clocking 53 seconds in the mens 100-meter freestyle.

"I wasn't ready for this meet, because I trained too hard for the Commonwealth Games," he told reporters later, explaining that he won only because his competition was weak.

Chinese divers completed a sweep of the gold and silver medals in all four events in the platform and spring board diving competition.

Syria picked up its first gold medal in the super heavyweight division of weightlifting.

SPORTS BRIEFS

Conigliaro's Recovery Is Set Back

BOSTON (AP) — Tony Conigliaro, the former baseball star who was felled by a massive heart attack last January and who was in a coma for five months, may be moved back to a rehabilitation clinic from a hospital where he is being treated for pneumonia.

Conigliaro, 37, was admitted to Salem Hospital on Oct. 26, and has been on a respirator to aid his breathing while doctors monitor his condition to make sure one of his lungs does not collapse.

Doctors say his brain function and physical mobility have gradually improved, and that the biggest threat to his health is a continuing battle with pneumonia and other respiratory ailments.

Viral Infection Kills Promising Filly

NEW YORK (NYT) — Landaluce, who ran faster than every horse she raced against and left the racing world saying she might be the fastest 2-year-old filly of her time, died of a viral infection early Sunday at Santa Anita Race Track in Arcadia, California.

Landaluce died just 12 bours before the $518,000 Hollywood Starlet Stakes, the richest race for fillies in thoroughbred history and a race she had been expected to win until she became sick last week.

A victory in the Starlet would have been her sixth without a defeat, would have sent her past Buckpasser's earnings record for a 2-year-old. Instead, the race was won by Fabulous Notion, ridden by substitute jockey Don Pierce. O' Happy Day was second, and Stephanie Bryn finished third.

Ski Opener Shifted to New Swiss Site

LAAX, Switzerland (UPI) — Officials bave shifted next Sunday's men's downhill ski race, which was scheduled to open the World Cup season, to Pontresina because of lack of snow in Laax.

Although snow conditions were excellent in the upper sections of the Laax track and the lower section could bave been adequately prepared, there was not enough snow in the crash areas.

Conditions are reported to be excellent in the Pontresina area. The course has never been used for World Cup racing, but the Swiss national downhill championships were held there in 1974 and 1979.

ART BUCHWALD

The Battle of the Bilge

WASHINGTON — "This is your captain speaking. Welcome to Love Boat USA. We're going to have a wonderful trip because my crew has navigated a surefire course to get us out of these heavy seas."

"Permissioo to come on the bridge, sir."

"Permission granted, Stockman."

"Sir, we're in much deeper water than I predicted."

"Stay the course."

"When we set sail my calculations indicated that we would be short 50 billion gallons of fuel.But now because the ship is hardly moving, we could be short 185 billioo gallons."

"Let's give every passenger another fare cut. That should get the boat moving again."

"We have to find some way of getting more fuel. Giving everyone a fare cut oow won't do it."

"Why don't we lay off more of the crew?"

"We've cut the crew to the booe. There woo't be much savings there."

"Then cut down on benefits for the passengers."

"Yes, sir. All the passengers?"

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"Of course oot. Just those in tourist class. We don't want to deprive the first-class passengers of anything they oeed. If the first-class passengers are happy, it will eventually trickle down to the tourist class."

"Chief Regan wants to speak to you, sir."

"What is it, Regan?"

"Bad news from the boiler room. We're running out of steam and the eogines are only operating at half their capacity."

"Stay the course, Regan."

"Yes, sir, but if we can't produce steam we're going to have to use up even more fuel than we anticipated."

"Doo't worry. When my fare cut goes into effect we'll have all the steam we want."

"Captain, this is Officer Schweiker on C Deck. A lot of steerage passengers are seasick. Many of them are falling over the side."

"Put up some more safety nets."

"I don't have any safety nets. You ordered them thrown overboard to lighten the ship's load."

"Well, then, the passengers are going to have to stay in the water until we get things straightened out on the bridge."

"They're drowning, sir."

"My heart goes out to them, but stay the course."

"Captain, damage cootrol says we're taking bilge in the cargo holds and the gross national product barometer is dropping fast."

"Tell them to reduce the prime interest rate valves."

"They have, sir, but the bilge won't stop. They want to know if you could turn the ship 20 degrees until they can pump out the water."

"I'm not interested in quick fixes to save a leaking boat. Stay the course."

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"Chief Gunnery Officer Weinberger requests to speak to the captain."

"Of course, Caspar. What's up?"

"I'm going to have to put more 16-inch guns front and aft, sir, and I want laser-controlled depth charges and torpedoes on deck, and I must install MX missiles oo the stern."

"I don't see any problem with any of that. Go ahead. Why are you sulking, Stockman?"

"Sir, if we put all that military hardware on deck in these heavy seas we'll be short over 220 billioo gallons of fuel."

"As captain I have no intention of cutting back on the security oeeds of my ship. If Caspar says be oeeds all that stuff, then that's good enough for me."

"Captain, look at those waves! I think we're rolling into a depression."

"Keep your voice down, Dole, you'll scare the passengers. Stay the course."

Roman-Era Skeletons Show Signs of Disease

The Associated Press

CIRENCESTER, England — Skeletons found in a 1,700-year-old cemetery sbow the inhabitants of Roman Britain suffered from gout, spina bifida, poliomyelitis and arthriös, and had lead poisoning, an archaeologist reported.

"Nearly half of the adult males had arthritis in most joints of the body," said Alao McWhirr, director of excavations io Cirencester. Doctnrs have been analyzing the 450 skeletnns, dug up from a burial ground outside the Roman town wall since 1969.

The True Story of Keneally's 'List'

The Case of a 'Nonfiction Novel' About the Real Oskar Schindler and the Holocaust

By Richard F. Shepard
New York Times Service

NEW YORK — The always edgy, often intimate relatinnship between fact and fiction in modern letters was underlined when Britain's most highly regarded literary award, the Booker McConnall Prize for fiction, recently went to Thomas Keneally's oew book, "Schindler's List," a story in which truth is indeed stranger than fiction.

"Schindler's List" is the story of Oskar Schindler, a real Roman Catholic Sudeten German World War II profiteer, opportunist, womanizer and drinker, who eventually spent all his money and energy in saving 1,400 Jews from death at the hands of the Nazis in Krakow, Poland. Schindler, who died in 1974, is buried in Jerusalem and is bonored in the Avenue of the Righteous, dedicated to Gentiles who helped Jews during the Nazi occupation.

Keneally is an Australian Roman Catholic of Irish descent and as a novelist, many of whose 15 or so books deal with historical themes (none Jewish), he might be considered among those least likely to do a oonfiction work about the heart of the Holocaust. He came to his subject by a chance encounter in Los Angeles and handled it in the only way he felt competent to, with the techniques of a novel. The result is not only a book, but also a controversy.

"I am delighted with the Booker McConnell Prize, but it is also preposterous to me," be said during a visit to New York. "The book is fiction in the sense that Tom Wolfe's 'The Right Stuff' is fiction. The facts are there, but I make use of fictional techniques in character development, the manner in which an incident is relayed.

"I deliberately set out to write a book as fact in a literary way. There is some fictionalization when there is not a record of the dialogue. I do a reasonable reconstrucöon. There is something in it as a novel, but oot as a fiction. My publisher, Simon and Schuster, describes it as a nonfictioo oovel. It is startling that it would win a prize fnr fiction.

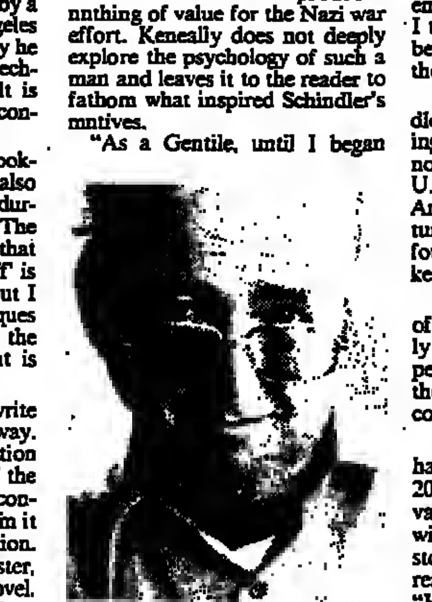
"Io all salient facts, the story is exact down to the smallest detail of calorie allowances, SS registrations and what happened in Nazi actions in the Ghetto. I had a responsibility to those who cherish the memory of Oskar, many of whom read and corrected the manuscript."

Schindler's exploits were so fantastic that they verge on fiction and, indeed, legends have ariseo about the man. He shamelessly bribed and wheedled with the manners of a dandy who enjoyed the good life, a man common enough among those who were involved io a cynically brutal war machine. He had gone to Krakow to set up a business, a war industry and, in the process, staffed his factory with Jewish employees. He treated them humanely, saved families and put himself at terrible risk, undergoing arrest, interrogation and detention by the SS. He fraternized with his employees, apparently because it never occurred to him oot to.

Schindler was not a strong character before the war, and he had a less distinguished life after it. But in the war, he managed to save Jews in armaments factories, which he made sure produced nnthing of value for the Nazi war effort. Keneally does not deeply explore the psychology of such a man and leaves it to the reader to fathom what inspired Schindler's mntives.

"As a Gentile, until I began writing this book, I didn't realize how much it cost, not just in bravery and energy, to save a Jew, but in money," Keneally said. "Deals could be made with individuals, but the Jews couldn't make a deal with the system. In many ways, Schindler's story is almost like an episode from 'Hogan's Heroes' and I am always embarrassed by the resemblance. I think he would have eventually been caught but for the ending of the war."


The New York Times
Oskar Schindler


Jerry Bauer
Thomas Keneally

Keneally came upon the Schindler story in 1980 as he was making a publicity tour oo behalf of a novel, "Confederates," about the U.S. Civil War. He was in Los Angeles, his last stop before returning home to Sydney, when be found that his briefcase was broken.

"I stopped in front of a store of Italian leather goods in Beverly Hills," be said. "It looked expensive, bnt a man who worked there came out and said I could come in and look around."

Keneally made a purchase and, having a credit card that required 20 minutes for confirmatioo of its validity, he fell into conversation with Leopold Pfefferberg, the store's owner. Pfefferberg had read "Confederates" and said, "Have I got a story for you!"

"He was one of Schindler's Jews," Keneally said, "and he went into the back of the store and brought out transcripts of speeches and documents and lists of prisoners, including material io English," Keneally said. "For the next two years, I worked on this book, helped by my wife, Judith, and my 14-year-old daughter, Jane, who helped me color-code all the stories to get the chronologies right. With Pfefferberg's constant help, I interviewed almost 50 people who survived, thanks to Schindler, many of them married couples. To my surprise, I even discovered Schindler Jews in Australia."

Among the survivors was Justice Moshe Bejski, of the Israeli Supreme Court. "He took me aside and said that I would hear a lot of exaggerated accounts of Schindler's prowess in his efforts," Keneally recalled. "He told me to be careful, that if I got it wrong, it would discredit Schindler, and people would say that it never bappened. Then he went on to tell me the most incredible story of how Schindler persuaded the SS police chief of Moravia, where the factory was in its last days, to give arms to a Jewish factory commando on the pretext that Schindler himself would ntherwise be killed by a 'Jewish Bolshevik uprising' as the Germans pulled out."

Keneally has written historical novels about Australian aborigines, about the 1918 Armistice negotiations in the railroad car at Compiègne and about Joan of Arc, but he found that writing about Schindler was a more draining experience, as well as a dramatically educational one.

"I don't believe for a moment that the Jews were passive, that they walked quietly to death," he said. "By the time that stage was reacbed, they had been thoroughly demoralized and broken. We would all dn the same under those circumstances."

The next oovel of the 47-year-old author may be closer to home, dealing with central Australia. In a way, Keneally's thoughts always return to his country. "Australia's a little like Catholicism," he observed. "You always gn back to it."

PEOPLE

New Heyerdahl Find

Thor Heyerdahl has found ancient inscriptions near a jungle temple of sun worshippers that suggest an advanced civilization flourished on remote Indian Ocean islands 3,500 years ago. Heyerdahl, best known for leading the 1947 Kon-Tiki expedition, said on his return to Sri Lanka that he had discovered a limestone temple to the Sun God on one of the still-unexplored islands in the Maldives archipelago. The temple rose above the tropical landscape on the southern tip of the island, the 68-year-old Norwegian explorer said. The interior had been filled with coral rubble to a height of 40 to 50 feet (12 to 15 meters) and resembled a stepped pyramid oriented toward the sun. On the south wall, Heyerdahl found a ceremonial ramp similar to those seen in ancient Mesopotamia. Examples of ancient hieroglyphics found near the temple site may show that the Maldives were inhabited by an advanced civilization by 1500 B.C.

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"Moonlighting," by **Jerzy Skolimowski**, the Polish émigré director, was named Best Film of 1982 in the anoual British film awards presented by The Standard, London's evening newspaper. The film, which deals with the effect of martial law on Poles, was made io Britain. **Trevor Howard**, the veteran British actor, won the Best Actor award for his performance in "Light Years Away." **Jennifer Kendal** won the Best Actress award for ber part in "36 Chowringhee Lane," which was produced by her Indian busband, **Shashi Kapoor**.

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Mother Teresa of Calcutta, the Roman Catholic missionary who won the Nobel Peace Prize io 1979 for her work with the poor in India, can claim a new convert: **Malcolm Muggeridge**. Muggeridge is a former Communist, journalist, spy, racooteur and self-proclaimed celibate. Now he is a Roman Catholic. The 79-year-old television persooality, made famous by the medium he professes to hate, was received into the church at St. Mary Help of Christians in Hurst Green in Sussex. The church is close to the home of **Lord Longford**, the broadcaster and anti-pornography campaigner who sponsored Muggeridge's conversion. Muggeridge said the example of Mother Teresa had inspired him. "She has given me a whole new vision of what being a Christian means; of the amazing power of love and how in one dedicated soul it can burgeon to cover the whole world," he said. Muggeridge said his conversion to Catholicism had "been looming in my mind for maoy years." Muggeridge was a Communist as a Cambridge uodergraduate in the 1930s but was disenchanted when be worked as a correspondent in the Soviet Union during the rule of **Josef Stalin**. He joined British intelligence during World War II and became an agent in Africa. He took up free-lance journalism and wrote several novels after leaving the service. His television appearances on a series of satire shows spread his fame in the 1960s.

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Emmanuel Vitria, 61, celebrated the 14th anniversary of the operation that has made him the world's longest survivor of a heart transplant, with close family members at his daughter's house in Londes-des-Maures, near Marseilles. Vitria was 47 when he suffered a major heart attack. On Nov. 28, 1968, doctors gave Vitria another heart transplaoted from 20-year-old **Pierre Ponson**, who had died from injuries suffered in a traffic accident. The operation was performed in a Marseilles hospital under the direction of **Dr. Edmond Henry**, who died several years later after suffering a heart attack. Since the transplant, it is not unusual for Vitria to be seen around medical centers in Marseilles, microphone in hand, urging passers-by to donate blood. "These days I don't ask myself too many questions," Vitria said. "I come, I go, I eat, I drink, I sleep and throughout the day I try and get my fellow countrymen to give blood."

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Some people have been so livid about being left out of the "Green Book" — The Social List of Washington, D.C. — that they have sued. But **Labor Secretary Ray Donovan** asked that his name not appear with the rest of the capital's elite. "I think he anticipated the publicity and wanted to save us — and him — the embarrassment," said **Jean Shaw Murray**, whose grandmother began publishing the grass-colored suede-covered book in 1930. Donovan made the request after he weathered two investigations by a special prosecutor who said there was insufficient evidence to back up allegations of underworld ties.